



# STATE OF NORTH CAROLINA

**WINSTON-SALEM STATE UNIVERSITY**

**WINSTON-SALEM, NORTH CAROLINA**

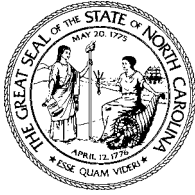
**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**



Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the 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, Winston-Salem State University

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

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

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

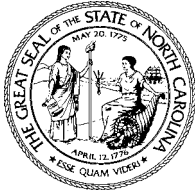
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	5
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Position.....	13
A-2 Statement of Revenues, Expenses, and Changes in Net Position .....	15
A-3 Statement of Cash Flows.....	16
Component Unit Exhibits	
B-1 Statement of Financial Position.....	18
B-2 Statement of Activities.....	19
Notes to the Financial Statements .....	21
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	45
ORDERING INFORMATION .....	47



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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Winston-Salem State University  
Winston-Salem, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Winston-Salem State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary, the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Winston-Salem State University Foundation, Inc. and Subsidiary, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary were not audited in accordance with *Government Auditing Standards*.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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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 opinions.

### Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Winston-Salem State University and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 18, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 18, 2014

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## **WINSTON-SALEM STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of the Winston-Salem State University (the “University”) annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2014. This discussion has been prepared by University management along with the financial statements and notes to the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. The Management’s Discussion and Analysis has comparative data for the applicable years (past and current) with emphasis on the current year. The financial statements, notes, and this discussion are the responsibility of University management.

### **Using the Annual Report**

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board’s (GASB) pronouncements. GASB pronouncements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis for the University as a whole, with resources classified for accounting and reporting purposes into four net position categories. One of the most important questions asked is whether the University as a whole is better or worse off as a result of the year’s activities. The key to understanding this question is provided within the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Position includes all assets and liabilities. The University’s net position (the difference between assets and liabilities) is an indicator of the University’s financial health. Over time, increases or decreases in net position is one indicator of the improvement or erosion of the University’s financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public University’s dependency on state appropriations and gifts will result in operating deficits, because GASB Statement No. 35 classifies state appropriations, certain grants, and gifts as nonoperating revenues.

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

### Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, the Winston-Salem State University Foundation, Inc. and Subsidiary (the "Foundation"), is an independent nonprofit corporation formed for the exclusive benefit of the University. Under GASB Standards, the Foundation meets the requirements to be reported discretely in these financial statements.

### Financial Highlights

The University's financial position, as a whole, increased during the fiscal year ended June 30, 2014. Its combined net position increased \$2,330,570.42 or 1.6% from the previous year.

### Condensed Financial Information

#### Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), liabilities (current and noncurrent), and the net position (total assets plus deferred outflows less total liabilities plus deferred inflows) of the University. This condensed financial statement provides a comparative University fiscal snapshot as of June 30, 2014 and June 30, 2013. This provides the readers of this statement with information on assets available to continue operations.

<b>Condensed Statements of Net Position</b>				
<b>6/30/2014 and 6/30/2013</b>				
	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Chg</u>
<b>Assets</b>				
Current Assets	\$ 22,334,244.39	\$ 26,053,147.91	\$ (3,718,903.52)	(14.3%)
Noncurrent Assets				
Capital	189,994,108.67	179,394,572.78	10,599,535.89	5.9%
Other	<u>47,585,786.95</u>	<u>34,371,855.46</u>	<u>13,213,931.49</u>	38.4%
Total Assets	<u>259,914,140.01</u>	<u>239,819,576.15</u>	<u>20,094,563.86</u>	8.4%
Deferred Outflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	0.0%
<b>Liabilities</b>				
Current Liabilities	13,669,936.89	13,153,226.09	516,710.80	3.9%
Long-Term Liabilities	97,408,764.81	80,177,583.66	17,231,181.15	21.5%
Other Noncurrent Liabilities	<u>2,461,741.82</u>	<u>2,445,640.33</u>	<u>16,101.49</u>	0.7%
Total Liabilities	<u>113,540,443.52</u>	<u>95,776,450.08</u>	<u>17,763,993.44</u>	18.5%
Deferred Inflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	0.0%
<b>Net Position*</b>				
Net Investment in Capital Assets	114,223,494.49	106,762,646.12	7,460,848.37	7.0%
Restricted:				
Nonexpendable	18,375,778.20	17,258,410.15	1,117,368.05	6.5%
Expendable	12,471,526.69	13,274,840.77	(803,314.08)	(6.1%)
Unrestricted	<u>1,302,897.11</u>	<u>6,747,229.03</u>	<u>(5,444,331.92)</u>	(80.7%)
Total Net Position	<u>\$ 146,373,696.49</u>	<u>\$ 144,043,126.07</u>	<u>\$ 2,330,570.42</u>	1.6%

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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As of June 30, 2014, total University assets were \$259,914,140.01. The University's largest asset at June 30, 2014 is capital assets totaling \$189,994,108.67, which increased \$10,599,535.89 compared to the prior year's capital assets of \$179,394,572.78. This increase is mainly due to the completion of the new Student Activities Center and Student Success Center for \$45,795,657.85 offset against a \$6,777,871.39 net increase in accumulated depreciation/amortization with a \$28,418,250.57 net decrease in construction in progress. The University's June 30, 2014 current assets of \$22,334,244.39 decreased \$3,718,903.52 compared to the prior year's current assets of \$26,053,147.91. This decrease is primarily due to a reduction in revenues due to a decrease in student enrollment and increase operating cost due to the opening of the new Student Activities Center and new Student Success Center along with outfitting of the new Foundation financed residence hall.

The \$22,334,244.39 in current assets covered the current liabilities of \$13,669,936.89, as the current ratio was \$1.63 in current assets to every \$1.00 in current liabilities.

Other Noncurrent Assets at June 30, 2014 was \$47,585,786.95 compared to \$34,371,855.46 at June 30, 2013. The \$13,213,931.49 increase is due to the receipt of the 2013 bond proceeds net of note repayments and construction costs associated with the bond issuance.

University liabilities totaled \$113,540,443.52 at June 30, 2014 compared to \$95,776,450.08 per the prior year, an increase of \$17,763,993.44. This variance is mainly attributed by the issuance of the 2013 Bond for \$36,900,000.00 net of the repayment of the bond anticipation note of \$12,800,000 and the defeasances of the 1998 and 2002 bond issues. Refer to Note 7 of the Notes to the Financial Statements for more detailed information about the University's long-term debt obligations.

The University's net investment in capital assets was \$114,223,494.49 at June 30, 2014 compared to \$106,762,646.12 in the prior year, an increase of \$7,460,848.37. The significant portion of the increase is primarily due to the completion of the Student Activities Center and Student Success Center mentioned above offset with current year depreciation and the spent proceeds received from revenue bond debt.

As of June 30, 2014, the University's restricted nonexpendable net position was \$18,375,778.20 compared to \$17,258,410.15 in the prior year, an increase of \$1,117,368.05 due to receiving additions to endowments during the year. The University's restricted expendable net position was \$12,471,526.69 compared to the prior year \$13,274,840.77. The decrease is due to the elimination of debt reserves due to bond defeasances.

The University's unrestricted net position was \$1,302,897.11 at June 30, 2014 compared to \$6,747,229.03 in the prior year. This decrease of \$5,444,331.92 or 80.7% is primarily due to a reduction in revenues due to a decrease in student enrollment and increase operating cost due to the opening of the new Student Activities Center and new Student Success Center along with outfitting of the new Foundation financed residence hall.

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position presents the activity that shows the changes in net position. The activity is represented by the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the University.

Operating revenues are received for providing goods and services to the various customers of the University. Operating expenses are used to acquire goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating activities since these are either investing, capital, or noncapital financing activities. Nonoperating expenses are expenses other than those involved in the normal operation of the University that can include interest expense.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Position 6/30/2014 and 6/30/2013

	2014	2013	\$ Change	% Chg
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 21,912,882.68	\$ 22,749,074.54	\$ (836,191.86)	(3.7%)
Sales and Services, Net	14,428,868.68	13,535,162.81	893,705.87	6.6%
Other	<u>1,300,801.17</u>	<u>1,304,904.13</u>	<u>(4,102.96)</u>	(0.3%)
Total Operating Revenues	<u>37,642,552.53</u>	<u>37,589,141.48</u>	<u>53,411.05</u>	0.1%
<b>Operating Expenses:</b>				
Salaries and Benefits	85,616,538.84	85,631,073.15	(14,534.31)	0.0%
Supplies and Materials	8,330,954.01	10,057,020.85	(1,726,066.84)	(17.2%)
Services	21,638,489.94	24,180,877.99	(2,542,388.05)	(10.5%)
Scholarships and Fellowships	12,379,258.61	12,945,644.35	(566,385.74)	(4.4%)
Utilities	3,207,101.87	2,871,325.48	335,776.39	11.7%
Depreciation/ Amortization	<u>7,056,289.20</u>	<u>6,692,714.46</u>	<u>363,574.74</u>	5.4%
Total Operating Expenses	<u>138,228,632.47</u>	<u>142,378,656.28</u>	<u>(4,150,023.81)</u>	(2.9%)
Operating Loss	(100,586,079.94)	(104,789,514.80)	4,203,434.86	(4.0%)
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	65,447,759.09	68,460,340.01	(3,012,580.92)	(4.4%)
Noncapital Grants	30,685,335.23	31,947,654.33	(1,262,319.10)	(4.0%)
Noncapital Gifts	700,398.96	610,766.93	89,632.03	14.7%
Investment Income, Net	3,490,957.07	2,392,026.90	1,098,930.17	45.9%
Interest and Fees on Debt	(3,540,482.33)	(3,197,025.44)	(343,456.89)	10.7%
Other Nonoperating Expenses	<u>(280,209.47)</u>	<u>(526,847.55)</u>	<u>246,638.08</u>	(46.8%)
Net Nonoperating Revenues	<u>96,503,758.55</u>	<u>99,686,915.18</u>	<u>(3,183,156.63)</u>	(3.2%)
Loss Before Other Revenues	(4,082,321.39)	(5,102,599.62)	1,020,278.23	(20.0%)
Capital Appropriations	1,788,627.00	305,900.00	1,482,727.00	484.7%
Capital Grants	3,494,962.73	11,914,336.83	(8,419,374.10)	(70.7%)
Capital Gifts		12,764.10	(12,764.10)	(100.0%)
Additions to Endowments	<u>1,129,302.08</u>	<u>1,000,000.00</u>	<u>129,302.08</u>	12.9%
Total Other Revenues	<u>6,412,891.81</u>	<u>13,233,000.93</u>	<u>(6,820,109.12)</u>	(51.5%)
Increase in Net Position	2,330,570.42	8,130,401.31	(5,799,830.89)	(71.3%)
<b>Net Position:</b>				
Beginning of Year	<u>144,043,126.07</u>	<u>135,912,724.76</u>	<u>8,130,401.31</u>	6.0%
End of Year	<u>\$ 146,373,696.49</u>	<u>\$ 144,043,126.07</u>	<u>\$ 2,330,570.42</u>	1.6%

Total operating loss for fiscal year 2014 was \$100,586,079.94. Since the State of North Carolina appropriation, certain grants, and gifts are not included within operating revenues per GASB Statement No. 35, the University will show a significant operating loss on a continuing basis.

The sources of operating revenues for the University are tuition and fees, auxiliary services, and other educational activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges, stemming from any material decrease in appropriation funding from the State of North Carolina.

Total expenses were \$142,049,324.27 for fiscal year 2014, compared to \$146,102,529.27 for fiscal year 2013, resulting in a decrease of \$4,053,205. Operating expenses, including depreciation/amortization of \$7,056,289.20, totaled \$138,228,632.47. Of this total, \$67,304,036.57 or 48.7% was used for instruction and student support. Changes within key operating expenses are identified as follows:

- Supplies and materials decreased by \$1,726,066.84 and services decreased by \$2,542,388.05 due to expensing of items in the prior fiscal year under the energy performance contract and an overall budget reduction for the institution.

The University's largest source of nonoperating revenue is the State of North Carolina appropriations. This is received in monthly payments, beginning in July of each year, since the State's fiscal year begins on July 1. 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 ended June 30, 2014, the State of North Carolina appropriated to the University \$65,447,759.09 for operations and provided \$3,494,962.73 in capital grants and \$1,788,627.00 in capital appropriations.

Total revenues were \$144,379,894.69 for fiscal year 2014, compared to \$154,232,930.58 for fiscal year 2013, resulting in a decrease of \$9,853,035.89, which is primarily attributed to the following:

- Student tuition and fees decreased \$836,191.86 from last year due to decrease in student enrollment.
- Sales and services increased \$893,705.87 from last year due to increase in housing occupancy and increase in rates.
- State appropriations reflect a \$3,012,580.92 decrease due to decreased funding from the State of North Carolina.
- State capital appropriations reflect a \$1,482,727.00 increase due to an increase in funding from the State of North Carolina.
- Noncapital grants decreased \$1,262,319.10 mainly due to decreased financial aid awards from federal and state sources and a decrease in federal grants received.
- Investment income increased \$1,098,930.17 mainly due to an increase in returns on endowment investments.
- Capital grants decreased by \$8,419,374.10 due to completion of state funded capital projects, in particular the new Student Activities Center.

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

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

### **Capital Assets and Long-Term Debt**

Major capital expenses for the year ended June 30, 2014 include the Student Activities Center construction costs of \$1,433,766.15, Student Success Center construction costs of \$8,696,003.03, and Joint Center for Design Innovation costs of \$5,008,538.62. The University's capital assets, net of accumulated depreciation/amortization at June 30, 2014, were \$189,994,108.67. For more information about the University's capital asset holdings, refer to Note 5 of the Notes to the Financial Statements.

Long-term debt totaled \$101,619,399.25 at June 30, 2014, compared to \$83,751,568.83 in the prior year, an increase of \$17,867,830.42. The increase resulted from the issuance of a tax-exempt general revenue bond for \$36,900,000 to repay the \$12,800,000 bond anticipation note, as well as defease two existing revenue bonds (Series 1998B and 2002B), and cover the costs associated with additional construction projects and improvements throughout campus.

### **Factors Impacting Future Periods**

Management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, the community, and governmental agencies. This flexibility, along with 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.

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

The University continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction. The University has plans to increase the availability of on-campus housing offerings to its students and has entered into an agreement with the Winston-Salem State University Foundation, Inc. and Subsidiary to work collaboratively towards this effort. This strategy addresses the University's growth and the continuing effects of technology on teaching methodologies.

Private gifts are an important supplement to the fundamental support from the State and student tuition, and a significant factor in the growth of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

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

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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 the University's financial condition is strong enough to weather any economic uncertainties.

**Winston-Salem State University**  
**Statement of Net Position**  
**June 30, 2014**

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

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 8,799,788.17
Restricted Cash and Cash Equivalents	8,947,214.11
Restricted Short-Term Investments	4.82
Receivables, Net (Note 4)	4,233,718.08
Inventories	273,437.12
Notes Receivable, Net (Note 4)	<u>80,082.09</u>
Total Current Assets	<u>22,334,244.39</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	21,950,111.78
Endowment Investments	25,129,554.93
Notes Receivable, Net (Note 4)	506,120.24
Capital Assets - Nondepreciable (Note 5)	18,885,399.63
Capital Assets - Depreciable, Net (Note 5)	<u>171,108,709.04</u>
Total Noncurrent Assets	<u>237,579,895.62</u>
Total Assets	<u>259,914,140.01</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<u>0.00</u>
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**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	3,657,375.55
Unearned Revenue	5,234,832.22
Interest Payable	567,094.68
Long-Term Liabilities - Current Portion (Note 7)	<u>4,210,634.44</u>
Total Current Liabilities	<u>13,669,936.89</u>
Noncurrent Liabilities:	
Deposits Payable	96,525.22
Funds Held for Others	1,509,721.31
U. S. Government Grants Refundable	855,495.29
Long-Term Liabilities, Net (Note 7)	<u>97,408,764.81</u>
Total Noncurrent Liabilities	<u>99,870,506.63</u>
Total Liabilities	<u>113,540,443.52</u>

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	<u>0.00</u>
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**Winston-Salem State University**  
**Statement of Net Position**  
**June 30, 2014**

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

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**NET POSITION**

Net Investment in Capital Assets	114,223,494.49
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,620,309.51
Endowed Professorships	12,190,058.80
Departmental Uses	2,470,000.97
Loans	95,408.92
Expendable:	
Scholarships and Fellowships	1,335,627.67
Endowed Professorships	2,775,734.13
Departmental Uses	8,153,855.28
Loans	206,309.61
Unrestricted	<u>1,302,897.11</u>
Total Net Position	<u>\$ 146,373,696.49</u>

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

**Winston-Salem State University**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 21,912,882.68
Sales and Services, Net (Note 9)	14,428,868.68
Interest Earnings on Loans	3,885.08
Other Operating Revenues	<u>1,296,916.09</u>
Total Operating Revenues	<u>37,642,552.53</u>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	85,616,538.84
Supplies and Materials	8,330,954.01
Services	21,638,489.94
Scholarships and Fellowships	12,379,258.61
Utilities	3,207,101.87
Depreciation/ Amortization	<u>7,056,289.20</u>
Total Operating Expenses	<u>138,228,632.47</u>
Operating Loss	<u>(100,586,079.94)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	65,447,759.09
Noncapital Grants - Student Financial Aid	20,438,329.45
Noncapital Grants	10,247,005.78
Noncapital Gifts	700,398.96
Investment Income (Net of Investment Expense of \$119,134.97)	3,490,957.07
Interest and Fees on Debt	(3,540,482.33)
Other Nonoperating Expenses	<u>(280,209.47)</u>
Net Nonoperating Revenues	<u>96,503,758.55</u>
Loss Before Other Revenues	(4,082,321.39)
Capital Appropriations	1,788,627.00
Capital Grants	3,494,962.73
Additions to Endowments	<u>1,129,302.08</u>
Increase in Net Position	2,330,570.42

**NET POSITION**

Net Position - July 1, 2013	<u>144,043,126.07</u>
Net Position - June 30, 2014	<u>\$ 146,373,696.49</u>

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

**Winston-Salem State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 39,067,373.26
Payments to Employees and Fringe Benefits	(85,773,949.05)
Payments to Vendors and Suppliers	(33,853,868.61)
Payments for Scholarships and Fellowships	(12,379,258.61)
Loans Issued	(68,000.00)
Collection of Loans	138,688.50
Interest Earned on Loans	3,885.08
Student Deposits Received	96,525.22
Student Deposits Returned	(313,212.85)
	<u>(93,081,817.06)</u>
Net Cash Used by Operating Activities	<u>(93,081,817.06)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	65,447,759.09
Noncapital Grants - Student Financial Aid	20,480,445.88
Noncapital Grants	10,480,829.51
Noncapital Gifts	700,398.96
Additions to Endowments	1,129,302.08
William D. Ford Direct Lending Receipts	32,530,400.00
William D. Ford Direct Lending Disbursements	(32,530,400.00)
Other Payments	(69,501.02)
	<u>98,169,234.50</u>
Net Cash Provided by Noncapital Financing Activities	<u>98,169,234.50</u>

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

Proceeds from Capital Debt	37,625,257.55
State Capital Appropriations	1,788,627.00
Capital Grants	3,494,962.73
Acquisition and Construction of Capital Assets	(18,329,361.02)
Principal Paid on Capital Debt and Leases	(20,036,089.17)
Interest and Fees Paid on Capital Debt and Leases	(3,302,919.54)
	<u>1,240,477.55</u>
Net Cash Provided by Capital Financing and Related Financing Activities	<u>1,240,477.55</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	3,320,685.83
Investment Income	184,732.55
Purchase of Investments and Related Fees	(2,255,193.47)
	<u>1,250,224.91</u>
Net Cash Provided by Investing Activities	<u>1,250,224.91</u>
Net Increase in Cash and Cash Equivalents	7,578,119.90
Cash and Cash Equivalents - July 1, 2013	<u>32,118,994.16</u>
Cash and Cash Equivalents - June 30, 2014	<u>\$ 39,697,114.06</u>

**Winston-Salem State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit A-3**

**Page 2 of 2**

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

Operating Loss	\$ (100,586,079.94)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	7,056,289.20
Allowances, Write-Offs, and Amortizations	15,840.44
Changes in Assets and Liabilities:	
Receivables, Net	15,030.68
Inventories	51,906.94
Notes Receivable, Net	70,688.50
Accounts Payable and Accrued Liabilities	(1,201,531.39)
Due to Primary Government	(34,123.99)
Unearned Revenue	1,413,675.13
Compensated Absences	333,175.00
Deposits Payable	<u>(216,687.63)</u>
Net Cash Used by Operating Activities	<u>\$ (93,081,817.06)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 8,799,788.17
Restricted Cash and Cash Equivalents	8,947,214.11
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>21,950,111.78</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 39,697,114.06</u>

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

Assets Acquired through the Assumption of a Liability	\$ 2,895,735.51
Change in Fair Value of Investments	3,187,001.39
Loss on Disposal of Capital Assets	(15,840.44)
Amortization of Bond Premiums	54,512.96

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

**Winston-Salem State University Foundation, Inc.  
and Subsidiary**  
**Consolidated Statement of Financial Position**  
**June 30, 2014**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$ 3,561,227
Restricted Cash	4,205,104
Certificates of Deposit	513,351
Receivables	1,014,315
Prepaid Expenses	7,443
Lease Obligation Receivable, Net	38,997,323
Pledges Receivable, Net	1,925,642
Investment Securities	12,018,832
Property and Equipment, Net	1,238,383
Property Held for Resale	14,384,926
Deferred Financing Costs, Net	<u>1,731,949</u>
 Total Assets	 <u>\$ 79,598,495</u>

**LIABILITIES AND NET ASSETS**

Accounts Payable and Other Accruals	\$ 807,178
Accounts Payable - Student Housing Project	28,214
Line of Credit	97,002
Construction Note Payable	14,500,000
Bonds Payable	<u>45,380,000</u>
 Total Liabilities	 <u>60,812,394</u>

**NET ASSETS**

Unrestricted	1,521,865
Temporarily Restricted	10,343,572
Permanently Restricted	<u>6,920,664</u>
 Total Net Assets	 <u>18,786,101</u>
 Total Liabilities and Net Assets	 <u>\$ 79,598,495</u>

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

**Winston-Salem State University Foundation, Inc.  
and Subsidiary  
Consolidated Statement of Activities  
For the Year Ended June 30, 2014**

**Exhibit B-2**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Gifts and Grants	\$ 306,509	\$ 1,415,971	\$ 96,451	\$ 1,818,931
Investment Income	52,368			52,368
Realized and Unrealized Gains on Investments	13,035	1,256,842		1,269,877
Administrative Fees	158,685			158,685
Passport Income	84,405			84,405
Lease Income	2,654,309			2,654,309
Loss on Disposal of Property and Equipment	(93,240)			(93,240)
Other	452,537	244,612		697,149
	<u>3,628,608</u>	<u>2,917,425</u>	<u>96,451</u>	<u>6,642,484</u>
Net Assets Released from Restrictions	<u>2,798,563</u>	<u>(2,798,563)</u>		
Total Support and Revenue	<u>6,427,171</u>	<u>118,862</u>	<u>96,451</u>	<u>6,642,484</u>
<b>EXPENSES</b>				
Scholarships	526,766			526,766
Special Programs	2,021,824			2,021,824
Management and General	824,312			824,312
Depreciation and Amortization	83,061			83,061
Interest	2,091,433			2,091,433
Fundraising Expense	27,547			27,547
Total Expenses	<u>5,574,943</u>			<u>5,574,943</u>
Change in Net Assets Before Transfers	852,228	118,862	96,451	1,067,541
Transfers	(5,387)	(7,944)	13,331	
<b>NET ASSETS</b>				
Net Assets, Beginning	<u>675,024</u>	<u>10,232,654</u>	<u>6,810,882</u>	<u>17,718,560</u>
Net Assets, Ending	<u>\$ 1,521,865</u>	<u>\$ 10,343,572</u>	<u>\$ 6,920,664</u>	<u>\$ 18,786,101</u>

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

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**WINSTON-SALEM STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. See below for further discussion of the University's component unit.

**Discretely Presented Component Unit** - The Winston-Salem State University Foundation, Inc. and Subsidiary (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Winston-Salem State University Housing Foundation, LLC, is the wholly owned subsidiary of the Foundation.

The Foundation is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of not less than five and not more than 27 elected directors, with the number at any given time being set by the Board of Directors. In addition to the elected directors, the Chancellor and Vice Chancellor for University Advancement of Winston-Salem State University shall be voting members of the Board. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2014, the Foundation distributed \$1,424,825 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Winston-Salem State University Foundation, Inc. and Subsidiary, 304 Blair Hall, 601 Martin Luther King, Jr. Drive, Winston-Salem, NC 27110, or by calling (336) 750-3005.

- 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts.

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

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 15 to 100 years for buildings, 5 to 20 years for equipment, and 4 to 5 years for computer software.

The Diggs Gallery collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- 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, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

**Net Investment in Capital Assets** - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

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

**M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as copy centers, motor pool, postal services, telecommunications, and facilities rentals. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, and debt service funds with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$39,697,114.06 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

### **B. Investments**

**University** - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds 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;

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

Investments are subject to the following risks.

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

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

**UNC Investment Fund, LLC** - At June 30, 2014, the University's investments include \$25,129,554.93 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of

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

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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 the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the University's non-pooled investments.

*Non-Pooled Investments*

Investment Type	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
		Debt Securities
Money Market Mutual Funds	\$ 4.82	\$ 4.82

At June 30, 2014, the Money Market Mutual Funds, with a fair value of \$4.82 were rated AAAM by Standard and Poor's.

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

Investment Type	<u>Fair Value</u>
Debt Securities	
Money Market Mutual Funds	\$ 4.82
Other Securities	
UNC Investment Fund	<u>25,129,554.93</u>
<b>Total Investments</b>	<u>\$ 25,129,559.75</u>

**Component Unit** - Investments of the University's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Fair Value
<b>Investment Type</b>	
UNC Investment Fund	\$ 9,246,808
Stocks, Including Exchange-Traded Funds	108,915
Mutual Funds	2,511,921
Money Market Funds	151,188
<b>Total Investment Securities</b>	<b>\$ 12,018,832</b>

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

Deposits in the Short-Term Investment Fund	\$ 39,697,114.06
External Investment Pool	25,129,554.93
Non-Pooled Investments	4.82
<b>Total Deposits and Investments</b>	<b>\$ 64,826,673.81</b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 8,799,788.17
Restricted Cash and Cash Equivalents	8,947,214.11
Noncurrent:	
Restricted Cash and Cash Equivalents	21,950,111.78
<b>Total Deposits</b>	<b>39,697,114.06</b>
Investments	
Current:	
Restricted Short-Term Investments	4.82
Noncurrent:	
Endowment Investments	25,129,554.93
<b>Total Investments</b>	<b>25,129,559.75</b>
<b>Total Deposits and Investments</b>	<b>\$ 64,826,673.81</b>

**NOTE 3 - ENDOWMENT INVESTMENTS**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The total spending rate is calculated annually by taking the sum of the market value of the endowment investments for the preceding twelve quarters, and dividing the result by twelve. For the fiscal year ended June 30, 2014, the Board of Trustees approved spending from the average value at a rate of five percent, paid out proportionately on a quarterly basis. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2014, endowment net appreciation of \$6,817,570.94 was available to be spent, all of which was classified in net position as restricted expendable for scholarships and fellowships, professorships, and departmental uses as it is restricted for specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 3,136,839.55	\$ 1,303,223.97	\$ 1,833,615.58
Accounts	163,038.22		163,038.22
Intergovernmental	1,939,525.21		1,939,525.21
Investment Earnings	13,561.95		13,561.95
Interest on Loans	229,003.91		229,003.91
Other	<u>54,973.21</u>		<u>54,973.21</u>
<b>Total Current Receivables</b>	<u>\$ 5,536,942.05</u>	<u>\$ 1,303,223.97</u>	<u>\$ 4,233,718.08</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 141,512.22	\$ 72,546.98	\$ 68,965.24
Institutional Student Loan Programs	<u>13,472.60</u>	<u>2,355.75</u>	<u>11,116.85</u>
<b>Total Notes Receivable - Current</b>	<u>\$ 154,984.82</u>	<u>\$ 74,902.73</u>	<u>\$ 80,082.09</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 915,270.65	\$ 457,487.86	\$ 457,782.79
Institutional Student Loan Programs	<u>85,278.05</u>	<u>36,940.60</u>	<u>48,337.45</u>
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 1,000,548.70</u>	<u>\$ 494,428.46</u>	<u>\$ 506,120.24</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 5,231,051.56	\$ 0.00	\$ 0.00	\$ 5,231,051.56
Art, Literature, and Artifacts	953,772.00			953,772.00
Construction in Progress	<u>41,118,826.64</u>	<u>16,483,126.96</u>	<u>44,901,377.53</u>	<u>12,700,576.07</u>
<b>Total Capital Assets, Nondepreciable</b>	<u>47,303,650.20</u>	<u>16,483,126.96</u>	<u>44,901,377.53</u>	<u>18,885,399.63</u>
Capital Assets, Depreciable:				
Buildings	176,805,529.20	44,901,377.53		221,706,906.73
Machinery and Equipment	16,454,264.25	1,188,538.57	294,258.25	17,348,544.57
General Infrastructure	13,320,778.61			13,320,778.61
Computer Software	<u>392,958.38</u>			<u>392,958.38</u>
<b>Total Capital Assets, Depreciable</b>	<u>206,973,530.44</u>	<u>46,089,916.10</u>	<u>294,258.25</u>	<u>252,769,188.29</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	60,272,556.30	5,196,558.76		65,469,115.06
Machinery and Equipment	9,852,748.14	1,327,185.16	278,417.81	10,901,515.49
General Infrastructure	4,573,543.09	448,866.05		5,022,409.14
Computer Software	<u>183,760.33</u>	<u>83,679.23</u>		<u>267,439.56</u>
<b>Total Accumulated Depreciation/Amortization</b>	<u>74,882,607.86</u>	<u>7,056,289.20</u>	<u>278,417.81</u>	<u>81,660,479.25</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>132,090,922.58</u>	<u>39,033,626.90</u>	<u>15,840.44</u>	<u>171,108,709.04</u>
<b>Capital Assets, Net</b>	<u>\$ 179,394,572.78</u>	<u>\$ 55,516,753.86</u>	<u>\$ 44,917,217.97</u>	<u>\$ 189,994,108.67</u>

During the year ended June 30, 2014, the University incurred \$4,568,779.75 in interest costs related to the acquisition and construction of capital assets. Of this total, \$3,540,091.80 was charged in interest expense, and \$1,028,687.95 was capitalized.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 3,190,949.00
Accrued Payroll	129,192.40
Contract Retainage	305,619.44
Other	<u>31,614.71</u>
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<u>\$ 3,657,375.55</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

#### UNIVERSITY

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 10,510,000.00	\$ 36,900,000.00	\$ 5,630,000.00	\$ 41,780,000.00	\$ 1,815,000.00
Plus: Unamortized Premium	29,717.83	725,257.55	54,512.96	700,462.42	
<b>Total Revenue Bonds Payable</b>	<b>10,539,717.83</b>	<b>37,625,257.55</b>	<b>5,684,512.96</b>	<b>42,480,462.42</b>	<b>1,815,000.00</b>
Notes Payable	6,517,358.00		211,089.17	6,306,268.83	259,493.44
Bond Anticipation Notes	12,800,000.00		12,800,000.00		
Capital Leases Payable	49,460,000.00		1,395,000.00	48,065,000.00	1,445,000.00
Compensated Absences	4,434,493.00	3,159,847.00	2,826,672.00	4,767,668.00	691,141.00
<b>Total Long-Term Liabilities</b>	<b>\$ 83,751,568.83</b>	<b>\$ 40,785,104.55</b>	<b>\$ 22,917,274.13</b>	<b>\$ 101,619,399.25</b>	<b>\$ 4,210,634.44</b>

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

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

Purpose	Series	Interest Rate Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
<b>Housing and Dining System</b>						
UNC System Pool Revenue Bonds	2008A	3.00%-5.00%	10/01/2033	\$ 4,591,004.21	\$ 558,577.42	\$ 4,032,426.79
2013 General Revenue Bonds	2013	2.00%-5.125%	04/01/2043	18,269,190.00	764,929.50	17,504,260.50
UNC System Pool Revenue Bonds	1998B	3.70%-5.00%	01/01/2017	8,430,000.00	8,430,000.00	
UNC System Pool Revenue Bonds	2002B	3.50%-5.37%	04/01/2017	3,090,000.00	3,090,000.00	
<b>Total Housing and Dining System</b>				<b>34,380,194.21</b>	<b>12,843,506.92</b>	<b>21,536,687.29</b>
<b>Student Services System</b>						
UNC System Pool Revenue Bonds	2008A	3.00%-5.00%	10/01/2033	2,723,995.79	331,422.58	2,392,573.21
2013 General Revenue Bonds	2013	2.00%-5.125%	04/01/2043	11,686,230.00	489,301.50	11,196,928.50
<b>Total Student Services System</b>				<b>14,410,225.79</b>	<b>820,724.08</b>	<b>13,589,501.71</b>
<b>Parking System</b>						
2013 General Revenue Bonds	2013	2.00%-5.125%	04/01/2043	6,944,580.00	290,769.00	6,653,811.00
<b>Total Revenue Bonds Payable (principal only)</b>				<b>\$ 55,735,000.00</b>	<b>\$ 13,955,000.00</b>	<b>41,780,000.00</b>
Plus: Unamortized Premium						700,462.42
<b>Total Revenue Bonds Payable</b>						<b>\$ 42,480,462.42</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2015	\$ 1,815,000.00	\$ 1,991,250.00	\$ 259,493.44	\$ 236,672.87
2016	1,890,000.00	1,917,400.00	283,425.39	226,416.37
2017	1,960,000.00	1,839,575.00	290,578.47	215,442.81
2018	1,010,000.00	1,758,650.00	364,674.13	203,659.79
2019	1,055,000.00	1,715,700.00	409,838.94	188,859.97
2020-2024	6,145,000.00	7,813,128.16	2,540,427.66	679,956.69
2025-2029	8,095,000.00	6,211,115.67	2,157,830.80	148,071.68
2030-2034	10,450,000.00	3,972,562.50		
2035-2039	6,030,000.00	1,622,318.78		
2040-2044	<u>3,330,000.00</u>	<u>437,418.76</u>		
<b>Total Requirements</b>	<u>\$ 41,780,000.00</u>	<u>\$ 29,279,118.87</u>	<u>\$ 6,306,268.83</u>	<u>\$ 1,899,080.18</u>

Interest on the variable rate debt is predetermined in each of the bond covenants.

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

On July 11, 2013 Winston-Salem State University issued \$36,900,000 in Series 2013 tax-exempt General Revenue Bonds and will bear interest from that date. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing October 1, 2013. The bonds will mature from April 1, 2014 to April 1, 2043 and were issued at coupon rates ranging from 2.00% to 5.125%. The bonds were issued to provide funds for the construction of a Student Success Center, the construction of a new student housing facility, the construction of improvements on North Campus and the completion of the Reaves Student Activities Center. A portion of the bonds were also used to defease the \$2,825,000 1998B Revenue Refunding Bonds with an average interest rate of 5.0% and \$1,070,000 of outstanding 2002B UNC System Pool Revenue Bonds with an average interest rate of 5.375%. The refunding was undertaken to reduce total debt service payments by \$232,893.07 over the next four years and resulted in an economic gain of \$237,252.73.

**E. Notes Payable** - The University was indebted for notes payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Energy Performance Contract	Siemens Public, Inc.	3.81%	09/30/2027	\$ 6,517,358.00	\$ 211,089.17	\$ 6,306,268.83

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

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On September 15, 2011, the University entered into an installment financing contract with Siemens Public, Inc. for \$6,517,258.00 resulting in a Guaranteed Energy Savings Notes Payable with an interest rate of 3.81% per annum fixed, maturing on September 30, 2027. The University shall pay the purchase price plus interest to Siemens Public, Inc. in quarterly installments consisting solely of interest commencing on September 15, 2012, and then in quarterly installments consisting of principal and interest commencing on September 30, 2013.

**F. Bond Anticipation Notes** - On February 19, 2013, the University entered into a loan agreement with First Tennessee Bank for \$12,800,000 that was repaid with Series 2013 Bond proceeds received on July 11, 2013. The proceeds were used to pay for the continued construction on the new Student Activities Center and Student Success Center.

**COMPONENT UNIT**

**Bonds Payable** - Three student housing facilities have been financed through the issuance of bonds. In December 2001, \$17,665,000 of Series 2001 bonds were issued by the North Carolina Facilities Finance Agency to fund the construction of Rams Commons. The bonds were scheduled to mature at various intervals through 2031.

In September 2004, \$35,900,000 of series 2004 bonds were issued. The proceeds of this issuance were used to retire the Series 2001 bonds, and to finance the construction of Gleason-Hairston Terrace. These bonds mature at various intervals through 2036, and bear interest at fixed rates ranging from 3% to 5%.

In October 2006, \$18,835,000 of Series 2006 bonds were issued. The proceeds of this issuance were used to finance the construction of Foundation Heights. These bonds mature at various intervals through 2036 and bear interest at fixed rates from 3% to 5%.

<u>Fiscal Year</u>	<u>Bonds Payable</u>
2015	\$ 1,340,000
2016	1,395,000
2017	1,455,000
2018	1,510,000
2019	1,565,000
Thereafter	38,115,000
Total Requirements	\$ 45,380,000

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to University student housing and athletic facilities are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 3,618,637.26
2016	3,623,336.76
2017	3,629,602.02
2018	3,627,145.52
2019	3,626,073.50
2020-2024	18,124,584.56
2025-2029	18,116,851.80
2030-2034	17,420,751.50
2035-2036	4,507,656.26
<b>Total Minimum Lease Payments</b>	<b>76,294,639.18</b>
Amount Representing Interest (3.75%-5.00% Rate of Interest)	28,229,639.18
<b>Present Value of Future Lease Payments</b>	<b>\$ 48,065,000.00</b>

Buildings acquired under capital lease amounted to \$58,035,000 at June 30, 2014.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$15,731,097.59 at June 30, 2014.

**B. Operating Lease Obligations** - The University entered into operating leases for athletic fields, office space, and parking. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 359,263.38
2016	33,415.83
2017	30,619.37
2018	26,341.02
2019	26,556.96
2020-2024	56,495.05
2025-2029	46,999.88
2030-2034	54,485.77
2035-2039	63,163.95
<b>Total Minimum Lease Payments</b>	<b>\$ 697,341.21</b>

Rental expense for all operating leases during the year was \$1,296,993.69.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 32,007,277.51	\$ 0.00	\$ 9,598,699.36	\$ 495,695.47	\$ 21,912,882.68
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 11,376,705.44	\$ 0.00	\$ 3,877,839.17	\$ 194,604.37	\$ 7,304,261.90
Dining	4,853,194.37		1,508,581.33	84,925.31	3,259,687.73
Student Union Services	1,892,599.87			41,442.70	1,851,157.17
Health, Physical Education, and Recreation Services	69,420.70				69,420.70
Parking	994,196.35			5,944.91	988,251.44
Athletic	277,703.69				277,703.69
Telecommunications	943,739.46	889,661.78			54,077.68
Print Shop	96,225.21	15,585.13			80,640.08
Transport Services	221,573.68	221,573.68			
Other	543,668.29				543,668.29
<b>Total Sales and Services</b>	<u>\$ 21,269,027.06</u>	<u>\$ 1,126,820.59</u>	<u>\$ 5,386,420.50</u>	<u>\$ 326,917.29</u>	<u>\$ 14,428,868.68</u>

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 47,081,593.07	\$ 809,046.33	\$ 4,294,466.56	\$ 615,279.70	\$ 0.00	\$ 0.00	\$ 52,800,385.66
Research	312,495.59	106,362.24	80,841.55	5,000.00			504,699.38
Public Service	688,038.19	83,536.42	196,466.16				968,040.77
Academic Support	6,268,240.13	2,280,825.23	635,199.59	15,750.00			9,200,014.95
Student Services	3,893,969.96	843,270.68	549,849.44	16,545.88			5,303,635.96
Institutional Support	11,107,228.66	215,610.93	3,043,746.92				14,366,586.51
Operations and Maintenance of Plant	7,878,804.74	1,193,511.69	1,754,107.58		1,979,525.31		12,805,949.32
Student Financial Aid	460,693.57		75,002.85	10,356,144.88			10,891,841.30
Auxiliary Enterprises	7,925,474.93	2,798,790.49	11,008,809.29	1,370,538.15	1,227,576.56		24,331,189.42
Depreciation/ Amortization						7,056,289.20	7,056,289.20
<b>Total Operating Expenses</b>	<u>\$ 85,616,538.84</u>	<u>\$ 8,330,954.01</u>	<u>\$ 21,638,489.94</u>	<u>\$ 12,379,258.61</u>	<u>\$ 3,207,101.87</u>	<u>\$ 7,056,289.20</u>	<u>\$ 138,228,632.47</u>

### NOTE 11 - PENSION PLANS

Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

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

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

For the current fiscal year, the University had a total payroll of \$66,184,766.24, of which \$36,471,278.37 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$3,169,354.09 and \$2,188,276.70, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$3,169,354.09, \$3,043,344.82, and \$2,665,555.35, respectively.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

For the current fiscal year, the University had a total payroll of \$66,184,766.24, of which \$21,325,588.47 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,458,670.25 and \$1,279,535.31, respectively.

### **NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the University contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$3,121,030.81, \$3,104,043.14, and \$2,869,683.18, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$254,306.21, \$257,694.15, and \$298,447.06, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 13 - RISK MANAGEMENT

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund extended coverage against losses caused by windstorm or hail, explosion, smoke, aircraft or vehicles, and riot or civil commotion on certain buildings and contents. In addition, the University purchased "all risk" coverage through the Fund for a particular tower and various buildings.

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

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

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

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

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$4,619,593.50 and on other purchases were \$1,450,522.24 at June 30, 2014.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 15 - SUBSEQUENT EVENTS

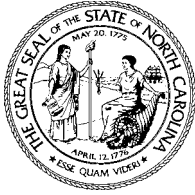
On August 12, 2014, the Winston-Salem State University Foundation, Inc. and Subsidiary issued \$27,990,000 in Series 2014 Student Housing Project Limited Obligation refunding bonds with an average interest rate of 4.6%. The bonds were issued for a current refunding of \$29,075,000 of outstanding Series 2004 Winston-Salem State University Student Housing Project Certificates of

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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Participation with an average interest rate of 4.8%. The refunding was undertaken to reduce total debt service payments by \$2,787,745.34 over the next 22 years and resulted in an economic gain of \$1,579,809.25. The original purpose of this debt was to construct two student residence halls for which the University leases (capital) from the Winston-Salem State University Foundation.

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Beth A. Wood, CPA  
State Auditor

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**Office of the State Auditor**

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

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Board of Trustees  
Winston-Salem State University  
Winston-Salem, 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 Winston-Salem State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 18, 2014. Our report includes a reference to other auditors who audited the financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary, as described in our report on the University's financial statements. The financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

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



**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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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 18, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

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Office of the State Auditor Fraud Hotline: 1-800-730-8477

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[itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745](https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745)

For additional information contact:

Bill Holmes  
Director of External Affairs