



STATE OF NORTH CAROLINA

NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

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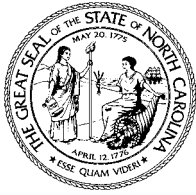
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Central University

We have completed a financial statement audit of North Carolina Central University for the year ended June 30, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

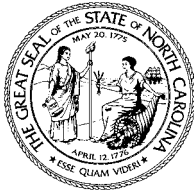
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited the accompanying financial statements of North Carolina Central 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, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NCCU Real Estate Foundation, Inc., which represent 7% and 1%, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

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

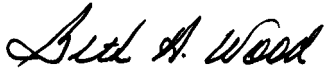
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Central University and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA
State Auditor

June 22, 2010

NORTH CAROLINA CENTRAL UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis is intended to give the reader an overview of factors that have affected operations and may affect operations in the future for North Carolina Central University (the University). Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements. The University is required by the Governmental Accounting Standards Board (GASB) to present three basic financial statements. Those statements are the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the University.

Brief Institutional Highlights

Throughout the year, the University was dedicated to ensuring student success across the University community. The entire campus was focused on reaffirmation from the Southern Association of Colleges and Schools (SACS) and the Quality Enhancement Plan (QEP). The QEP theme was "Communicating to Succeed," with emphasis on writing and speaking.

Additionally, the University received a \$5 million grant from the National Science Foundation over the next five years for the Computational Center for Fundamental and Applied Science, which will advance research in nanotechnology, nuclear physics, robotics, etc. Lastly, the University's School of Law Clinical Legal Education program was ranked 20th in the nation by preLaw Magazine, a National Jurist publication.

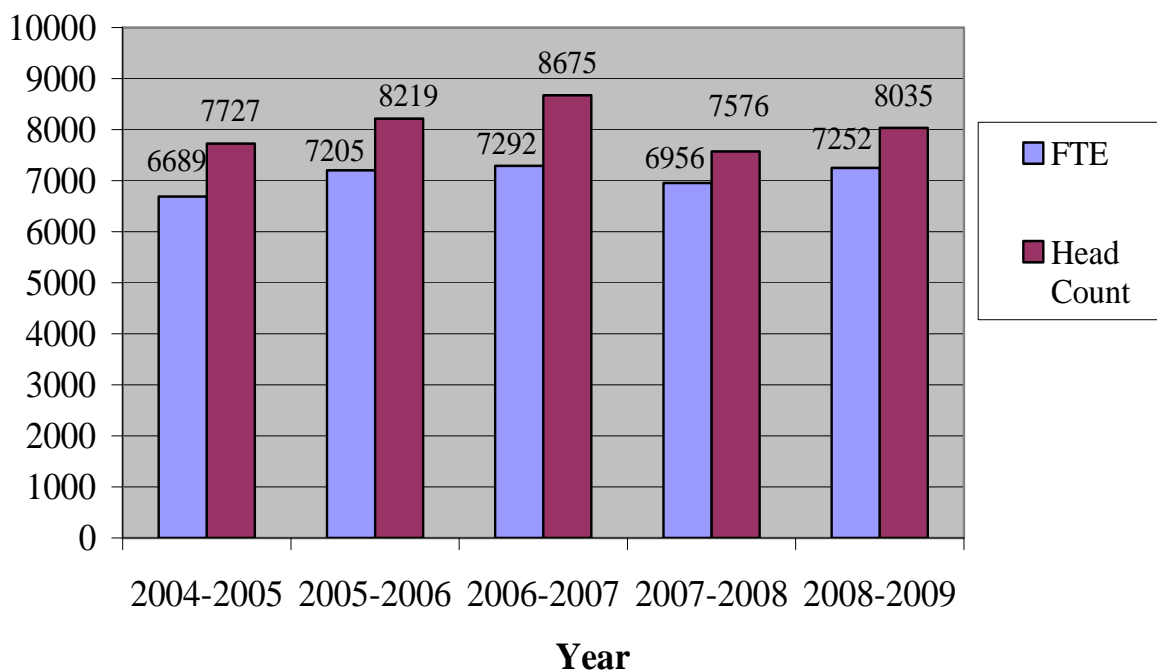
The University's financial position at June 30, 2009 was impacted by the global economic downturn as the State's revenues were below budgeted levels. Adjusted State appropriations were \$75.8 million for fiscal year 2009, which was a 12.2% decrease over fiscal year 2008. This decline required the State of North Carolina to reduce spending at all levels to ensure that the most essential operations (instruction) could be sustained. Without the spending restrictions, the University's authorized appropriations were \$96.2 million, which was a 13% increase over 2008. The total University budget, including receipts, for fiscal year 2009 was \$136.6 million as compared to \$117.3 million in 2008, a 16% increase. The increase in the University's budget was a result of projected enrollment growth, salary increases, funding to support the Law School, and federal fiscal stabilization (stimulus) funds.

The Office of Institutional Advancement continued with raising the awareness of the importance of giving as we approach the University's centennial year. During the fiscal year, the Office of Institutional Advancement generated \$3.2 million in total fundraising, which includes pledges and other gifts of \$1 million to the North Carolina Central University Foundation, Inc.

During the past academic year, the University's total enrollment increased by 459 students (6%) for fall 2008 compared with fall 2007. The University continued its efforts in recruiting talented students and enrolled one National Achievement finalist and one National Achievement semifinalist.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FTE and Head Count from 2004 to 2009



Financial Highlights

Condensed Statement of Net Assets

Assets	2009	2008
Current Assets	\$ 27,127,728	\$ 26,904,330
Capital Assets, Net	221,196,627	219,308,152
Other Assets	22,621,761	33,659,633
Total Assets	270,946,116	279,872,115
Liabilities		
Current Liabilities	18,088,135	14,143,377
Noncurrent Liabilities	35,218,290	35,113,893
Total Liabilities	53,306,425	49,257,270
Net Assets		
Invested in Capital Assets, Net of Related Debt	190,095,886	191,820,806
Restricted - Expendable	14,430,175	22,776,776
Restricted - Nonexpendable	12,721,644	11,377,726
Unrestricted	391,986	4,639,537
Total Net Assets	\$ 217,639,691	\$ 230,614,845

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Net Assets reports all assets and liabilities of the University; additionally, the statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer. This statement also reports the net assets, which is the difference between the total assets and total liabilities. The reader may use the net assets to gauge the financial position of the University as of June 30, 2009.

As of June 30, 2009, the University's total assets were \$270.9 million as compared to \$279.9 million in the prior year, a decrease of \$8.9 million. This decrease is due to the use of \$6 million in noncurrent restricted cash to cover current liabilities that included a \$3.5 million bond anticipation note, a decrease in endowment values of \$4 million as a result of market declines, combined with \$1.9 million increase in capital assets.

The University's liabilities totaled \$53.3 million at June 30, 2009 and \$49.3 million at June 30, 2008 with the debt service on housing comprising \$26.3 million (current and noncurrent portions). The increase in liabilities of \$4.0 million is attributable to the University having acquired \$3.5 million in bond anticipation notes and a \$1.1 million note payable with the U.S. Department of Education for awarding students federal aid in an unapproved program.

The total current liabilities of \$18.1 million were covered 1.5 times by current assets of \$27.1 million, which indicates the University's ability to pay current liabilities as they become due. Total net assets are \$217.6 million, which is a decrease of \$13 million from the prior year. This change resulted from restricted-expendable net assets decreasing by \$8.3 million because the construction of capital assets made possible by the 2000 Higher Education Bonds have nearly concluded and the decrease in unrestricted net assets by \$4.2 million. Unrestricted net assets declined due to the University having recorded liabilities for parking fine (\$1.3 million) revenues collected but due to the state of North Carolina for K-12 public education, Department of Education debt (\$1.1 million), and write-offs of student accounts receivables (\$1 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets

	2009	2008 (Restated)
Operating Revenues		
Student Tuition and Fees, Net	\$ 32,698,123	\$ 30,197,658
Contracts and Grants	4,441,155	5,702,686
Sales and Services, Net	22,613,824	18,535,296
Other Operating Revenues	<u>966,510</u>	<u>378,089</u>
Total Operating Revenues	60,719,612	54,813,729
Operating Expenses		
Salaries and Benefits	106,346,063	101,892,996
Supplies and Materials	17,016,398	16,649,910
Services	35,121,568	34,615,554
Scholarships and Fellowships	9,854,492	9,956,498
Utilities	4,372,741	5,030,776
Depreciation	<u>7,175,899</u>	<u>6,688,457</u>
Operating Expenses	<u>179,887,161</u>	<u>174,834,191</u>
Operating Loss	<u>(119,167,549)</u>	<u>(120,020,462)</u>
Nonoperating Revenues and Expenses		
State Appropriations	75,836,451	85,065,655
State Aid - Federal Recovery Funds	2,927,219	
Noncapital Grants	26,602,471	23,086,837
Noncapital Gifts	266,890	276,220
Investment Income (Loss)	(3,345,014)	1,657,789
Other Nonoperating Expenses	<u>(592,301)</u>	<u>(175,894)</u>
Loss Before Other Revenues	<u>(17,471,833)</u>	<u>(10,109,855)</u>
Capital Appropriations	701,797	4,536,700
Capital Grants	3,641,882	4,605,941
Capital Gifts	<u>153,000</u>	
Total Other Revenues	<u>4,496,679</u>	<u>9,142,641</u>
Decrease in Net Assets	<u>(12,975,154)</u>	<u>(967,214)</u>
Net Assets - Beginning of the Year	<u>230,614,845</u>	<u>231,582,059</u>
Net Assets - End of Year	<u><u>\$ 217,639,691</u></u>	<u><u>\$ 230,614,845</u></u>

The Statement of Revenues, Expenses, and Changes in Net Assets reports the revenues earned and expenses incurred during the fiscal year. The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net assets reported on the Statement of Net Assets. These transactions are classified as operating or nonoperating. Operating revenues primarily consist of student tuition and fees reported net of discounts and scholarship allowances, federal and state contracts and grants, and auxiliary sales and services

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

revenues. Operating expenses primarily consist of salaries, supplies, services, scholarships, utilities, and depreciation.

Operating revenues of \$60.7 million at June 30, 2009, increased by \$5.9 million when compared to 2008. The contributing factors to this increase are as follows: increases in student tuition and fees of \$2.5 million due to a 6% enrollment increase, 2.5% change in graduate tuition and \$1,000 increase in the professional school tuition; sales and services of \$4.1 million due to 15% rate increases in housing and meal plans along with higher occupancy.

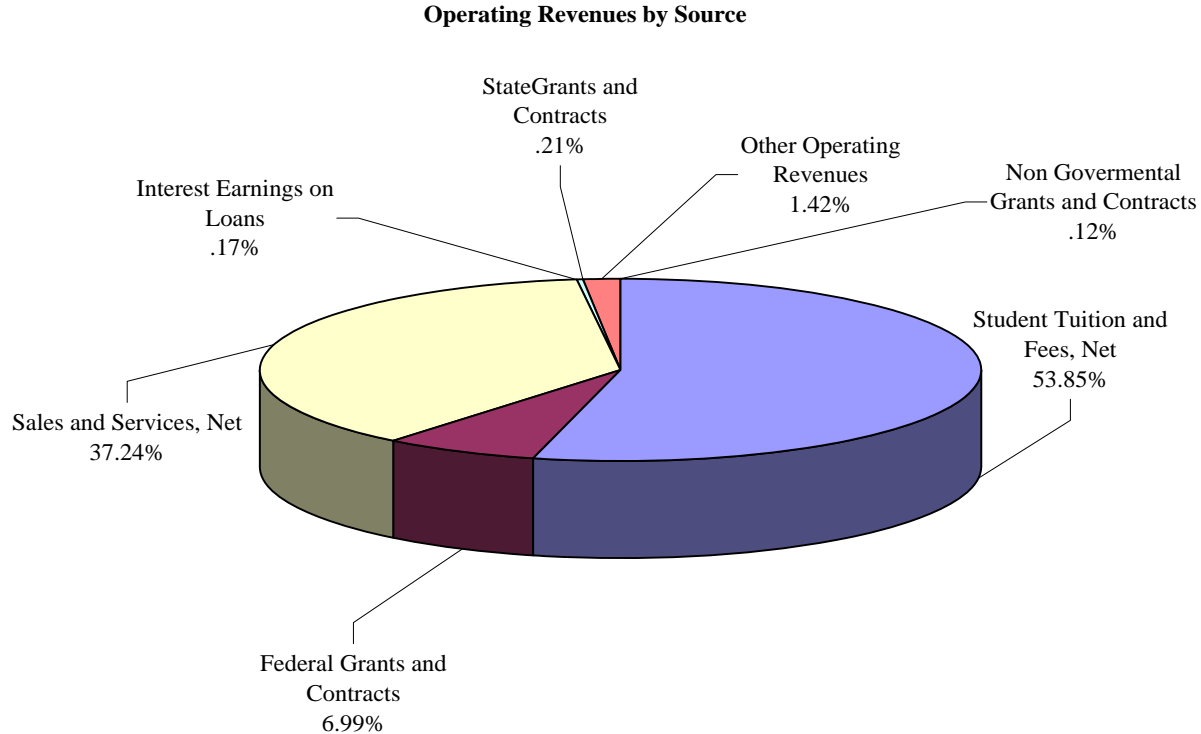
Operating expenses of \$179.9 million at June 30, 2009, increased by \$5.1 million when compared to 2008. Salaries and benefits for University employees were the major components of this change in the amount of \$4.5 million. Contributing factors to the increase in salaries and benefits were legislative increases and filling vacant positions.

Nonoperating revenues and expenses stem from transactions that occur outside of the primary scope of the University's existence and for which no goods or services are provided. State appropriations, capital grants, noncapital grants and gifts, investment income/expenses, and capital-related interest primarily represent the nonoperating revenues and expenses.

Of the nonoperating revenues (\$101.7 million), there were noticeable changes in the state appropriations and investment income. State appropriations decreased by \$9.2 million as a result of state-mandated budget and spending restrictions in response to the global economic crisis. Investment income decreased by \$5 million and is attributable to the realized and unrealized losses on Endowment Investments due to global market declines.

At the end of the fiscal year, the State of North Carolina received federal recovery funds to stabilize the state's budget. The University received \$2.9 million, which was recorded as nonoperating revenue.

In addition, capital appropriations declined by approximately \$3.8 million due to a reduction in the bond construction projects, which have been mostly completed.



Capital Assets and Debt Administration

The two major projects remaining in construction in progress were \$1.9 million expended on new student housing (\$1.4 million) and a parking deck (\$0.5 million). Outstanding commitments for ongoing construction projects were \$17.5 million as of June 30, 2009. During the fiscal year, the University completed the construction of Pearson Cafeteria, which added \$13 million to buildings. For additional information concerning capital assets, see Notes 1(H), 5, and 15(A) in the Notes to the Financial Statements.

During 2009, the University secured \$3.5 million in bond anticipation funds to begin the planning and design of student housing, a parking deck, and renovations to the Walker Complex. In July 2009, the University received \$60.7 million from the University of North Carolina System Pool Revenue Bonds, Series 2009C to complete the construction and renovation of the aforementioned projects. As mentioned in the discussion of the Statement of Nets Assets, the University recorded a \$1.1 million liability to the U.S. Department of Education as part of a settlement for awarding federal aid to students enrolled in an unapproved program.

As of June 30, 2009, the University had \$27.6 million in outstanding bonds and notes payable of which \$26.3 million was for outstanding bonds issued by the University and the Real Estate Foundation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

For additional information concerning debt administration, see Note 8 in the Notes to the Financial Statements.

Economic Outlook

Given the continued economic conditions of the state and nation, North Carolina Central University recognizes the inevitable impact that such conditions will have upon the campus community. Budgetarily, the University will see reductions in its appropriations to adjust for expected decreases in the State's revenues. For 2009-2010, the University's budget was reduced by 4.2% and it has been required to reserve 5% of appropriations; therefore a total impact of 9.2% (\$8.8 million) on appropriated funds. Additionally, the University's endowment funds have only slightly increased market value. Since year end, the combined endowment market values have increased 2.3% or \$330,000. In response to the unstable economy, the University will continue to strategically manage vacant positions, reorganize and restructure departmental units to be more efficient, purchase only goods and services critical to daily operations, limit travel to that which enhances delivery of services to all customers, and enhance fundraising strategies for private contributions.

As expected, the weakened economy has impacted the enrollment at many universities and North Carolina Central experienced record freshmen enrollment of 1,362 freshmen and first-time students have matriculated. Overall, total enrollment reached 8,571 for fall 2009, which exceeded our goal of 8,397. Additionally, the fall 2009 retention rate increased to 77.2% as a result of the efforts and resources invested into the repurposed University College to focus intensely on student success and competitiveness.

Lastly, the University's faculty continues writing, applying for, and receiving research grant funds to augment State funding. Research is one of three components that faculty must strive to accomplish. The Sponsored Research Office works diligently with faculty to provide ongoing training and opportunities for research. Through our dedicated faculty and staff, we will continue to fulfill our mission of serving the state, nation, and the world through teaching, research, and service.

North Carolina Central University
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,709,626
Restricted Cash and Cash Equivalents	10,023,742
Restricted Short-Term Investments	1,386,724
Receivables, Net (Note 4)	10,228,883
Due from University Component Units	2,141,725
Inventories	514,416
Notes Receivable, Net (Note 4)	121,265
Other Assets	1,347
Total Current Assets	<u>27,127,728</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,735,800
Restricted Due from Primary Government	518,869
Restricted Due from State of North Carolina Component Units	1,059,154
Endowment Investments	12,956,062
Other Investments	60
Notes Receivable, Net (Note 4)	3,351,816
Capital Assets - Nondepreciable (Note 5)	10,398,120
Capital Assets - Depreciable, Net (Note 5)	<u>210,798,507</u>
Total Noncurrent Assets	<u>243,818,388</u>
Total Assets	<u>270,946,116</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	9,051,027
Due to Primary Government	1,559,779
Funds Held for Others	2,141,725
Unearned Revenue	132,514
Interest Payable	108,024
Short-Term Debt (Note 7)	3,500,000
Long-Term Liabilities - Current Portion (Note 8)	<u>1,595,066</u>
Total Current Liabilities	<u>18,088,135</u>

Noncurrent Liabilities:

Deposits Payable	401
Funds Held for Others	246,634
U. S. Government Grants Refundable	2,544,358
Long-Term Liabilities (Note 8)	<u>32,426,897</u>
Total Noncurrent Liabilities	<u>35,218,290</u>
Total Liabilities	<u>53,306,425</u>

North Carolina Central University
Statement of Net Assets
June 30, 2009

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	190,095,886
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,129,023
Endowed Professorships	7,433,120
Loans	1,159,501
Expendable:	
Scholarships and Fellowships	1,511,382
Research	550,123
Endowed Professorships	1,811,374
Capital Projects	6,806,266
Debt Service	3,736,122
Other	14,908
Unrestricted	<u>391,986</u>
Total Net Assets	<u><u>\$ 217,639,691</u></u>

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

***North Carolina Central University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 32,698,123
Federal Grants and Contracts	4,242,479
State and Local Grants and Contracts	124,985
Nongovernmental Grants and Contracts	73,691
Sales and Services, Net (Note 10)	22,613,824
Interest Earnings on Loans	105,289
Other Operating Revenues	861,221

Total Operating Revenues	<u>60,719,612</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	106,346,063
Supplies and Materials	17,016,398
Services	35,121,568
Scholarships and Fellowships	9,854,492
Utilities	4,372,741
Depreciation	7,175,899

Total Operating Expenses	<u>179,887,161</u>
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Operating Loss	<u>(119,167,549)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	75,836,451
State Aid - Federal Recovery Funds	2,927,219
Noncapital Grants - Federal Student Financial Aid	14,205,075
Other Noncapital Grants	12,397,396
Noncapital Gifts	266,890
Investment Loss	(3,345,014)
Interest and Fees on Debt	(1,311,910)
Other Nonoperating Revenues	719,609

Net Nonoperating Revenues	<u>101,695,716</u>
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Loss Before Other Revenues, Expenses, Gains, or Losses	(17,471,833)
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Capital Appropriations	701,797
Capital Grants	3,641,882
Capital Gifts	153,000

Decrease in Net Assets	(12,975,154)
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NET ASSETS

Net Assets - July 1, 2008	<u>230,614,845</u>
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Net Assets - June 30, 2009	<u>\$ 217,639,691</u>
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The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Central University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 63,710,806
Payments to Employees and Fringe Benefits	(106,200,194)
Payments to Vendors and Suppliers	(55,586,281)
Payments for Scholarships and Fellowships	(9,854,492)
Loans Issued	(398,731)
Collection of Loans	218,077
Interest Earned on Loans	104,952
Other Payments	(389,885)
	<hr/>
Net Cash Used by Operating Activities	(108,395,748)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	75,836,451
Other Noncapital Grants	14,593,093
State Aid - Federal Recovery Funds	2,927,219
Noncapital Grants - Federal Student Financial Aid	14,205,075
Noncapital Gifts	266,890
William D. Ford Direct Lending Receipts	69,858,353
William D. Ford Direct Lending Disbursements	(69,858,353)
Related Activity Agency Disbursements	(131,715)
Other Receipts	719,609
	<hr/>
Net Cash Provided by Noncapital Financing Activities	108,416,622

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	3,771,550
State Capital Appropriations	701,797
Capital Grants	5,947,176
Acquisition and Construction of Capital Assets	(9,986,114)
Principal Paid on Capital Debt and Leases	(1,072,802)
Interest and Fees Paid on Capital Debt and Leases	(1,335,734)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(1,974,127)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	3,991,083
Investment Income	771,160
Purchase of Investments and Related Fees	(4,151,814)
	<hr/>
Net Cash Provided by Investing Activities	610,429
	<hr/>
Net Decrease in Cash and Cash Equivalents	(1,342,824)
Cash and Cash Equivalents - July 1, 2008	18,811,992
	<hr/>
Cash and Cash Equivalents - June 30, 2009	\$ 17,469,168

North Carolina Central University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3

Page 2

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)

TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$	(119,167,549)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		7,175,899
Allowances, Write-Offs, and Amortizations		743,398
Nonoperating Other Expenses		(389,885)
Changes in Assets and Liabilities:		
Receivables (Net)		2,295,179
Inventories		(68,173)
Accounts Payable and Accrued Liabilities		(355,393)
Due to Primary Government		(48,522)
Due to State of North Carolina Component Units		1,302,596
Unearned Revenue		74,601
Compensated Absences		222,755
Note Principal Repayments		218,077
Notes Issued		(398,731)
Net Cash Used by Operating Activities	\$	<u>(108,395,748)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	2,709,626
Restricted Cash and Cash Equivalents		10,023,742
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>4,735,800</u>
Total Cash and Cash Equivalents - June 30, 2009	\$	<u>17,469,168</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$	153,000
Change in Fair Value of Investments		(3,026,744)

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

North Carolina Central University Foundation, Inc.
Statement of Financial Position
June 30, 2009

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	1,967,977
Accounts Receivable, Related Party		442,358
Contributions Receivable, Net		146,812
Investments		8,431,090
Cash Surrender Value of Life Insurance		161,706
		<hr/>
Total Assets		11,149,943
		<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses		5,614
Funds Held on Behalf of Others		2,141,725
		<hr/>
Total Liabilities		2,147,339
		<hr/>

NET ASSETS

Unrestricted		(409,222)
Temporarily Restricted		1,773,064
Permanently Restricted		7,638,762
		<hr/>
Total Net Assets	\$	9,002,604
		<hr/>

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

North Carolina Central University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Revenues, Gains, and Other Support:				
Contributions	\$ 26,582	\$ 875,480	\$ 600,296	\$ 1,502,358
Interest and Dividends	96,298	6,960	4,171	107,429
Realized and Unrealized Losses on Investments	(1,340,068)	(1,162,482)		(2,502,550)
Other Income	147,638	64,860		212,498
Net Assets Released From Donor Restrictions	1,265,968	(1,265,968)		
Total Revenues, Gains, and Other Support	196,418	(1,481,150)	604,467	(680,265)
EXPENSES				
Program Services:				
Scholarships and Grants	866,540			866,540
University Support	365,264			365,264
Management and General	228,560			228,560
Bad Debt Loss		140,677	398,224	538,901
Total Expenses	1,460,364	140,677	398,224	1,999,265
Changes in Net Assets Before Asset Transfers	(1,263,946)	(1,621,827)	206,243	(2,679,530)
Transfer from Funds Held on Behalf of Others		312,231		312,231
Transfer of Endowment to North Carolina Central University			(250,000)	(250,000)
Changes in Net Assets	(1,263,946)	(1,309,596)	(43,757)	(2,617,299)
NET ASSETS				
Net Assets - July 1, 2008	854,724	3,082,660	7,682,519	11,619,903
Net Assets - June 30, 2009	<u>\$ (409,222)</u>	<u>\$ 1,773,064</u>	<u>\$ 7,638,762</u>	<u>\$ 9,002,604</u>

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

NORTH CAROLINA CENTRAL UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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. North Carolina Central University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it were part of the University. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Blended Component Unit - Although legally separate, the NCCU Real Estate Foundation, Inc. (Real Estate Foundation), a component unit of the University, is reported as if it was part of the University.

The Real Estate Foundation is governed by a three-member board. The Real Estate Foundation's purpose is to acquire property and to construct and own residential facilities for students. Because the directors of the Real Estate Foundation are appointed by the Chancellor and the Real Estate Foundation's sole purpose is to benefit North Carolina Central University, its financial statements have been blended with those of the University.

Separate financial statements for the Real Estate Foundation may be obtained from the University Comptroller's Office, 1801 Fayetteville

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Street, Durham, NC 27707, or by calling 919-530-7432. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Unit - The North Carolina Central University Foundation, Inc. (NCCU Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The NCCU Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The NCCU Foundation board consists of 20 members. Although the University does not control the timing or amount of receipts from the NCCU Foundation, the majority of resources or income thereon, that the NCCU Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the NCCU Foundation can only be used by, or for the benefit of the University, the NCCU 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 NCCU Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2009, the NCCU Foundation remitted \$365,264 to the University for both restricted and unrestricted purposes. The University remitted \$146,696 in payroll deducted employee contributions and \$453,377 in other reimbursements to the NCCU Foundation. Complete financial statements for the NCCU Foundation can be obtained from the University's Comptroller's Office, 1801 Fayetteville Street, Durham, NC 27707 or by calling 919-530-7432.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds are reported at cost, if purchased or at fair value or appraised value at date of gift, if donated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or 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 in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Land is capitalized regardless of cost. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 50 to 75 years for buildings, and 5 to 25 years for equipment.

Art collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are 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 or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refunds are amortized over the life of the new debt 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 (for SPA employees) and July 1 (for EPA non-faculty employees) or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

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

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

N. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$15,744,300 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is

not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was \$1,900. The carrying amount of the University's deposits not with the State Treasurer was \$1,722,968 and the bank balance was \$1,722,968. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, the University's uninsured and uncollateralized bank balance was \$1,380,703.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 units, the Real Estate Foundation and the NCCU 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. Purchases in the investment fund are allowed at the beginning of each month. Fund ownership is measured based on the participating funds purchases and accumulated gain/loss investment. This investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

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.

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

The following table presents the fair value of investments by type at June 30, 2009, for the Long-Term Investment Pool.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Investment Pool

Investment Type	Fair Value
UNC Investment Fund	\$ 11,464,581

UNC Investment Fund, LLC - At June 30, 2009, the University's investments include \$11,464,581 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund, 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 12.70 years as of June 30, 2009. Asset and ownership interests of the System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC-CH Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Investment Maturities (in Years)	Fair Value	Less Than 1
Debt Securities			
Money Market Mutual Funds		\$ 53,523	\$ 53,523
Other Securities			
Other Mutual Funds	60		
Domestic Stocks		2,824,682	
Total Non-Pooled Investments		\$ 2,878,265	

At June 30, 2009, the University's non-pooled investments included \$53,523 in unrated Money Market Funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments - The following table presents the fair value of the total investments at June 30, 2009:

Investment Type	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 53,523
Other Securities	
UNC Investment Fund	11,464,581
Other Mutual Funds	60
Domestic Stocks	<u>2,824,682</u>
Total Investments	<u><u>\$ 14,342,846</u></u>

Component Units - Investments of the University's discretely presented component unit, NCCU Foundation, Inc., 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 NCCU 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:

Investment Type	Fair Value
Cash and Cash Equivalents	\$ 410,199
Equity Securities	5,036,331
Debt Securities	1,468,653
U.S. Government Obligations	1,145,009
Asset Backed Securities	99,926
Alternative Investments	<u>270,972</u>
Total Investments	<u><u>\$ 8,431,090</u></u>

NOTE 3 - ENDOWMENT INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5.5% of the endowment principal's market value. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University's Board of Trustees of the Endowment Fund. At June 30, 2009, endowment net assets of \$2,693,530 were available to be spent, of which \$475,630 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 8,645,502	\$ 4,653,084	\$ 3,992,418
Accounts	955,844		955,844
Intergovernmental	5,002,259		5,002,259
Investment Earnings	30,042		30,042
Interest on Loans	114,270		114,270
Other	134,050		134,050
Total Current Receivables	<u><u>\$ 14,881,967</u></u>	<u><u>\$ 4,653,084</u></u>	<u><u>\$ 10,228,883</u></u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u><u>\$ 400,734</u></u>	<u><u>\$ 279,469</u></u>	<u><u>\$ 121,265</u></u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u><u>\$ 6,581,410</u></u>	<u><u>\$ 3,229,594</u></u>	<u><u>\$ 3,351,816</u></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, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 6,328,518	\$ 439,400	\$ 0	\$ 6,767,918
Art, Literature, and Artifacts	665,840	153,000		818,840
Construction in Progress	10,860,300	6,995,551	15,044,489	2,811,362
Total Capital Assets, Nondepreciable	17,854,658	7,587,951	15,044,489	10,398,120
Capital Assets, Depreciable:				
Buildings	237,062,260	15,044,489		252,106,749
Machinery and Equipment	23,753,703	1,476,423	695,486	24,534,640
General Infrastructure	14,399,277			14,399,277
Total Capital Assets, Depreciable	275,215,240	16,520,912	695,486	291,040,666
Less Accumulated Depreciation/Amortization for:				
Buildings	57,551,373	4,586,569		62,137,942
Machinery and Equipment	8,358,107	1,995,085	695,486	9,657,706
General Infrastructure	7,852,266	594,245		8,446,511
Total Accumulated Depreciation	73,761,746	7,175,899	695,486	80,242,159
Total Capital Assets, Depreciable, Net	201,453,494	9,345,013		210,798,507
Capital Assets, Net	\$ 219,308,152	\$ 16,932,964	\$ 15,044,489	\$ 221,196,627

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 5,040,809
Accrued Payroll	2,775,648
Contract Retainage	515,483
Intergovernmental Payables	701,509
Other	17,578
Total Accounts Payable and Accrued Liabilities	\$ 9,051,027

NOTE 7 - SHORT-TERM DEBT - BOND ANTICIPATION NOTES

Short-term debt activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Draws	Repayments	Balance June 30, 2009
Bond Anticipation Notes	\$ 0	\$ 3,500,000	\$ 0	\$ 3,500,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In August 2008, the University secured \$3,500,000 in bond anticipation notes to fund the beginning phases of planning and design on the construction of student housing, a parking deck, and renovations to the Walker Complex. The bond anticipation note carries a 3.03% per annum interest rate and matures on July 1, 2009.

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds Payable	\$ 27,970,000	\$ 0	\$ 705,000	\$ 27,265,000	\$ 735,000
Add/Deduct Premium/Discount	(180,390)		(6,872)	(173,518)	
Deduct Deferred Charge on Refunding	(837,531)		(56,782)	(780,749)	
Total Bonds Payable	26,952,079		641,346	26,310,733	735,000
Notes Payable	167,285	1,285,700	162,977	1,290,008	438,835
Capital Leases Payable	367,982		367,982		
Compensated Absences	6,198,467	4,163,019	3,940,264	6,421,222	421,231
Total Long-Term Liabilities	\$ 33,685,813	\$ 5,448,719	\$ 5,112,569	\$ 34,021,963	\$ 1,595,066

B. Bonds Payable - The University was indebted for bonds payable and 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, 2009	Principal Outstanding June 30, 2009	See Table Below
Revenue Bonds Payable							
The University of North Carolina System Pool Revenue Bonds							
Student Housing	2004B	3.0% to 5.0%	04/01/2023	\$ 8,670,000	\$ 1,710,000	\$ 6,960,000	
Total The University of North Carolina System Pool Revenue Bonds				8,670,000	1,710,000	6,960,000	
NCCU Real Estate Foundation, Inc. Housing System							
Student Housing Facilities Revenue Bonds	2003A*	3.569%	10/01/2034	21,475,000	1,170,000	20,305,000	
Total NCCU Real Estate Foundation, Inc. Housing System				21,475,000	1,170,000	20,305,000	(1)
Total Bonds Payable (principal only)				\$ 30,145,000	\$ 2,880,000	27,265,000	
Less: Unamortized Loss on Refunding						780,749	
Less: Unamortized Discount						173,518	
Total Bonds Payable						\$ 26,310,733	

* For variable rate debt, interest rates in effect at June 30, 2009 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues Real Estate	\$ 26,367,362	\$ 1,734,052	\$ 1,250,112	26%

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

With regards to the following demand bond, the NCCU Real Estate Foundation, Inc. (Foundation) has entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Student Housing Facilities Revenue Bonds (Series 2003): In October 2003, the North Carolina Capital Facilities Finance Agency (Agency) issued revenue bonds totaling \$21,575,000 consisting of Series 2003A for \$21,475,000 and Series 2003B for \$100,000. Both series were issued to provide funds to the Foundation for the purpose of financing the acquisition and construction of certain student housing facilities (the Project) at North Carolina Central University. The bond proceeds were used to fund a portion of construction period interest, to fund a debt service reserve fund for the 2003A bonds, and to pay certain costs of issuance of the bonds. The Agency entered into a loan agreement with the Foundation dated October 1, 2003, whereby the bond proceeds were loaned to the Foundation. Under the terms of the loan agreement, the Foundation agrees to provide funds for the principal and interest payments due on the bonds. The loan will be repaid over a 30-year period with variable interest rates initially based on a weekly rate, which was 0.27% for Series 2003A Bonds at June 30, 2009. The interest rate can be converted from time to time to another interest rate made at the option of the Foundation given certain established criteria. The 2003A Bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The payment of principal and interest on the Series 2003A bonds is secured by an irrevocable, direct-pay letter of credit issued by a financial institution, which originally expired on October 15, 2006. The letter of credit was subsequently extended until August 31, 2010, by request from the Foundation by delivering a notice of extension to the Trustee. The Foundation is entitled to draw up to \$20,535,125. A commitment fee was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

paid to the financial institution in the amount of \$109,098 for the letter of credit on the date the bonds were issued. The Foundation is required to pay a quarterly fee for the letter of credit of 1.5% per annum based on the unused portion of the letter of credit commitment. The Foundation paid credit facility fees in the amount of \$314,843 during the year ended June 30, 2009. The total amount drawn and paid on the letter of credit for the year ended June 30, 2009 was \$666,464.

Under the letter of credit agreement, the proceeds of each drawing under the letter of credit to pay the portion of the purchase price of Series 2003A bonds allocable to principal will constitute a tender advance and must be reimbursed as provided in the agreement. The Foundation is required to repay each tender advance to Wachovia Bank, N.A. plus an interest rate of prime plus 1.0%. According to the Reimbursement Agreement Amendment dated in May 2008, the amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 366 days after the tender was made and/or the termination date.

The Series 2003A bonds have remarketing fees, an upfront charge paid to the remarketing agent to reset the interest rates on a weekly basis. At June 30, 2009, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2009, the Foundation paid remarketing fees of \$25,349.

Interest Rate Swaps:

Objective: Effective April 1, 2004, the Foundation entered into two interest rate swaps in connection with its \$21,575,000 variable-rate bonds payable as a means to protect against the risk of interest rate changes. The intention of the swap was to effectively lower the Foundation's interest rate on the long-term debt to a fixed rate.

Terms: Under the first agreement, the financial institution paid the Foundation interest monthly on the notional amount of \$8,590,000 based on the Bond Market Association (BMA) Municipal Swap Index as established on the Weekly Remarketing Date. The Foundation paid the financial institution monthly at a fixed rate of 2.71%. The notional amount reduced annually. The agreement matured April 1, 2009. Under the second agreement, the financial institution pays the Foundation interest on the notional amount of \$8,590,000 based on 70% of USD-LIBOR-BBA (with a designated maturity of one month) on a monthly basis. The Foundation pays the financial institution monthly at a fixed rate of 3.515%. For the year ended June 30, 2009, the Foundation paid the financial institution \$193,252 which was the net amount owed to the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

financial institution over the amount due from the financial institution. The notional amount of the swap reduces annually. The swap agreement matures October 1, 2024. As of June 30, 2009, rates were as follows:

	Terms	6/30/2009 Rates (%)
Fixed Payment to Financial Institution	Fixed	3.515
Variable Payment from Financial Institution	70% LIBOR	0.216
Net Interest Rate Swap Payments		3.299
Variable Rate Bond Coupon Payments		0.270
Synthetic Interest Rate on Bonds		3.569

Fair Value: As of June 30, 2009, the LIBOR swap had a negative fair value of \$684,790 and the BMA swap had expired in April 2009. When the fair value of a derivative contract is positive, the counterparty owes the Foundation, which creates credit risk for the Foundation. When the fair value of a derivative contract is negative, the Foundation owes the counterparty and, therefore, it does not possess credit risk. The Foundation minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties. The fair values were developed by the financial institution. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

Credit Risk: As of June 30, 2009, the Foundation was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Foundation would be exposed to credit risk. Wachovia's current long-term ratings are AA- by Fitch Ratings, Aa2 by Moody's Investor's Service, and AA by Standard and Poor's Corporation (S&P).

Basis Risk: The swaps expose the Foundation to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The Foundation receives 70% of 1-month USD-LIBOR-BBA Index from Wachovia Bank, N.A. and pays a floating rate to its bondholders set by the Remarketing Agent. The Foundation incurs basis risk when its bonds trade at a yield above 70% of USD-LIBOR-BBA Index. If the relationship of the Foundation's bonds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

trade to a percentage of LIBOR greater than 70%, the Foundation will experience an increase in debt service above the fixed rate on the swap.

Termination Risk: The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the Foundation being required to make an unanticipated termination payment.

Rollover Risk: The Foundation is exposed to rollover risk when the swap matures on October 1, 2024. When the swaps mature, the interest rate on the underlying debt will return to a variable rate.

Swap Payments and Associated Debt: As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2009, debt service requirements of the University's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows:

Fiscal Year Ending June 30	Interest Rate Swap					Total
	Principal	Variable-Rate Bond Interest	Letter of Credit	Remarketing	Interest Rate Swaps, Net	
2010	\$ 365,000	\$ 54,198	\$ 301,099	\$ 25,129	\$ 264,332	\$ 1,009,758
2011	385,000	53,170	295,388	24,655	259,318	1,017,531
2012	405,000	52,230	290,164	24,222	254,040	1,025,656
2013	430,000	50,941	283,007	23,628	248,448	1,036,024
2014	455,000	49,727	276,263	23,069	242,526	1,046,585
2015-2019	2,680,000	228,073	1,267,071	105,865	1,111,697	5,392,706
2020-2024	3,515,000	185,913	1,032,847	86,433	905,691	5,725,884
2025-2029	4,610,000	130,422	724,567	60,855	39,819	5,565,663
2030-2034	6,040,000	57,827	321,262	27,394		6,446,483
2035-2039	1,420,000	968	5,380	595		1,426,943
Total	<u>\$ 20,305,000</u>	<u>\$ 863,469</u>	<u>\$ 4,797,048</u>	<u>\$ 401,845</u>	<u>\$ 3,325,871</u>	<u>\$ 29,693,233</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009, are as follows:

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2010	\$ 735,000	\$ 671,401	\$ 264,332	\$ 438,835	\$ 38,586
2011	775,000	649,388	259,318	222,943	22,486
2012	805,000	627,191	254,040	229,724	15,705
2013	845,000	602,151	248,448	236,712	8,718
2014	895,000	577,034	242,526	161,794	1,826
2015-2019	5,185,000	2,440,209	1,111,697		
2020-2024	5,955,000	1,554,193	905,691		
2025-2029	4,610,000	915,844	39,819		
2030-2034	6,040,000	406,483			
2035-2039	1,420,000	6,943			
Total Requirements	<u>\$ 27,265,000</u>	<u>\$ 8,450,837</u>	<u>\$ 3,325,871</u>	<u>\$ 1,290,008</u>	<u>\$ 87,321</u>

Interest on the variable rate University of North Carolina System Pool Revenue bonds is calculated at 3.2% at June 30, 2009.

Interest on the variable rate Student Housing Facilities Revenue Bonds is calculated at 1.04% at June 30, 2009.

Interest on the variable rate Notes Payable is calculated at 2.32% at June 30, 2009.

E. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2009, the outstanding balance of prior year defeased bonds was \$6,385,000.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009
Maintenance Expenses - Residential Hall	NCCU Foundation, Inc	4.25%-8.75%	09/01/2010	\$ 75,000	\$ 0	\$ 75,000
Maintenance Expenses - Residential Hall	Wachovia Bank	2.34%-7.82%	08/31/2009	155,187	7,715	147,472
Settlement Agreement - Final Program Review Determination	U.S. Department of Education	3.00%	02/15/2014	1,138,228	70,692	1,067,536
Total Notes Payable				<u>\$ 1,368,415</u>	<u>\$ 78,407</u>	<u>\$ 1,290,008</u>

The Foundation has an outstanding line of credit to a bank issued March 2007 with principal and interest originally due August 15, 2007, at a rate of LIBOR plus 2%. The proceeds from the line of credit were used

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to pay for maintenance expenses at the residence hall. This original balance was subsequently paid in full with the issuance of a line of credit in the amount of \$225,000 in July 2008. The line of credit is secured by cash balances at the bank and the Foundation's property. Outstanding principal at June 30, 2009 was \$147,472. This line of credit expires August 31, 2009. Interest accrues at LIBOR plus 2%, and interest payments must be made quarterly commencing September 30, 2008. This line of credit was subsequently paid in full in August 2009.

During the year ending June 30, 2008, the Foundation entered into an agreement with the NCCU Foundation to borrow up to \$150,000 for maintenance of Eagle Landing Residence Hall. According to the original agreement, any amount advanced by NCCU Foundation was to be repaid on or before February 28, 2008. During October 2007, the NCCU Real Estate Foundation borrowed \$75,000 from the NCCU Foundation pursuant to the agreement. The note was amended in April 2008, extending the due date to July 1, 2009 and prohibiting additional advances. A second amendment was signed July 1, 2009, extending the due date to September 1, 2010. At June 30, 2009, the balance of the note was \$75,000. The interest rate is prime plus one percent. This note is unsecured. This note was subsequently paid in full by the Foundation in October 2009.

NOTE 9 - LEASE OBLIGATIONS

Operating Lease Obligations - The University entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 42,371
2011	35,357
Total Minimum Lease Payments	<u>\$ 77,728</u>

Rental expense for all operating leases during the year was \$4,823,986.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	<u>\$ 39,827,696</u>	<u>\$ 0</u>	<u>\$ 7,824,892</u>	<u>\$ (695,319)</u>	<u>\$ 32,698,123</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 13,489,066	\$ 46,573	\$ 1,945,692	\$ 0	\$ 11,496,801
Dining	8,001,994	369,275	1,480,782		6,151,937
Student Union Services	1,295,433	1,200	252,443		1,041,790
Health, Physical Education, and Recreation Services	588,851	4,000	114,750		470,101
Bookstore	324,582				324,582
Parking	585,759				585,759
Athletic	1,529,079		297,974		1,231,105
Other	1,321,784	660,803			660,981
Sales and Services of Education and Related Activities	<u>906,283</u>	<u>53,381</u>		<u>202,134</u>	<u>650,768</u>
Total Sales and Services	<u>\$ 28,042,831</u>	<u>\$ 1,135,232</u>	<u>\$ 4,091,641</u>	<u>\$ 202,134</u>	<u>\$ 22,613,824</u>

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 58,716,592	\$ 3,835,331	\$ 7,086,655	\$ 0	\$ 354	\$ 0	\$ 69,638,932
Research	2,092,908	582,492	759,497				3,434,897
Public Service	1,005,341	40,147	441,326				1,486,814
Academic Support	10,651,646	2,677,992	2,081,693		4,217		15,415,548
Student Services	3,178,058	81,370	636,154				3,895,582
Institutional Support	14,749,469	1,162,327	5,665,536		441		21,577,773
Operations and Maintenance of Plant	5,367,857	6,391,828	1,067,851		3,372,675		16,200,211
Student Financial Aid	863,047		338,269	9,854,492			11,055,808
Auxiliary Enterprises	9,721,145	2,244,911	17,044,587		995,054		30,005,697
Depreciation						7,175,899	7,175,899
Total Operating Expenses	<u>\$ 106,346,063</u>	<u>\$ 17,016,398</u>	<u>\$ 35,121,568</u>	<u>\$ 9,854,492</u>	<u>\$ 4,372,741</u>	<u>\$ 7,175,899</u>	<u>\$ 179,887,161</u>

NOTE 12 - PENSION PLANS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$85,762,936, of which \$61,769,224 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,075,446 and \$3,706,153, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$2,075,446, \$1,867,940, and \$1,386,335, 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2009, 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 \$85,762,936, of which \$20,180,543 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,380,349 and \$1,210,833, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$164,695 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were \$13,792. The voluntary contributions by employees amounted to \$479,807 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$926,431 for the year ended June 30, 2009.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

For the current fiscal year the University contributed 4.1% 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$3,359,940, \$3,254,158, and \$2,595,765, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$426,139, \$412,722, and \$355,210, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 14 - RISK MANAGEMENT

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

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

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

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.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and State's Agent of Record. Examples of insurance policies purchased include, but are not limited to fine arts, boiler and machinery, medical professional liability,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

athletic accident, excess liability, university internship and study abroad health insurance.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund 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 15 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$17,545,731 at June 30, 2009.
- 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 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

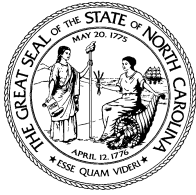
GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the University reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 17 - SUBSEQUENT EVENTS

On July 9, 2009, North Carolina Central University participated in the Fall 2009 Bond Pool to finance the construction of a new dormitory, parking deck and renovation of the Walker Athletic Complex. The amount of bonds issued was \$60,675,000, with interest rates ranging from 3% to 5.5%, maturing on April 1, 2034. Payments will be made semiannually on each October 1 and April 1.

In March 2010, the University entered into a lease agreement with the Real Estate Foundation, Inc. to lease the Eagle Landing Residence Hall. The lease agreement is a "net lease" with rental payments established to cover debt service payments and operating expenses. Future minimum lease payments under this capital lease obligation approximate \$38,105,160. The lease term terminates November 30, 2041.



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited the financial statements of North Carolina Central 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, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated June 22, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the NCCU Real Estate Foundation, Inc. and the discretely presented component unit, the North Carolina Central University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the NCCU Real Estate Foundation, Inc. and the North Carolina Central University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

**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 (CONCLUDED)**

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

June 22, 2010

ORDERING INFORMATION

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

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