

STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

THOMAS W. ROSS, PRESIDENT

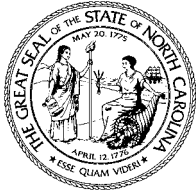
BOARD OF TRUSTEES

PAMELA McCORKLE BUNCUM, CHAIRPERSON

ADMINISTRATIVE OFFICERS

DR. HAROLD L. MARTIN, SR., CHANCELLOR

ROBERT POMPEY, JR., VICE CHANCELLOR FOR BUSINESS AND FINANCE



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Agricultural and Technical State University

We have completed a financial statement audit of North Carolina Agricultural and Technical State University for the year ended June 30, 2010, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The University's response is included following the finding.

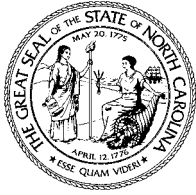
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	11
A-3 Statement of Cash Flows	12
Component Unit Exhibits	
B-1 Statement of Financial Position	14
B-2 Statement of Activities	15
Notes to the Financial Statements	17
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	41
AUDIT FINDINGS AND RESPONSES	43
ORDERING INFORMATION	45



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

We have audited the accompanying financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, 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 North Carolina A&T University Foundation, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for The North Carolina A&T University Foundation, Inc., are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The North Carolina A&T University 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 report of other auditors provide a reasonable basis for our opinions.

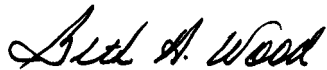
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Agricultural and Technical State University and its discretely presented component unit as of June 30, 2010, 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. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA
State Auditor

February 8, 2011

NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

North Carolina Agricultural and Technical State University (hereinafter referred to as the "University") provides the following Management's Discussion and Analysis as an overview of the financial activities for the fiscal year ended June 30, 2010. Comparative data for the year ended June 30, 2009 is also included. Information contained herein has been prepared by University staff for the purpose of identifying significant transactions, trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the related financial statements and notes to the financial statements.

The Financial Statements

The financial statements for North Carolina Agricultural and Technical State University include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles and reflect an economic resource measurement focus and the accrual basis of accounting. Management's Discussion and Analysis will concentrate on the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, using condensed versions for the purposes of this discussion.

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

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at June 30, 2010, defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as nonexpendable or expendable. Endowments and loan funds comprise the nonexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	2010	2009	Increase (Decrease)
Assets			
Current Assets	\$ 63,934,396.98	\$ 61,323,874.78	\$ 2,610,522.20
Noncurrent Capital Assets, Net of Accumulated Depreciation	313,406,572.85	302,931,999.95	10,474,572.90
Other Noncurrent Assets	21,095,763.58	31,736,283.97	(10,640,520.39)
Total Assets	398,436,733.41	395,992,158.70	2,444,574.71
Liabilities			
Current Liabilities	17,389,033.13	15,060,533.97	2,328,499.16
Noncurrent Liabilities	22,253,785.59	23,361,950.41	(1,108,164.82)
Total Liabilities	39,642,818.72	38,422,484.38	1,220,334.34
Net Assets			
Invested in Capital Assets, Net of Related Debt	298,610,217.82	286,924,134.34	11,686,083.48
Restricted - Nonexpendable	18,431,197.87	15,755,073.03	2,676,124.84
Restricted - Expendable	6,829,561.68	20,030,005.27	(13,200,443.59)
Unrestricted	34,922,937.32	34,860,461.68	62,475.64
Total Net Assets	\$ 358,793,914.69	\$ 357,569,674.32	\$ 1,224,240.37

Current assets increased by \$2,610,522.20. The increase is primarily due to an increase in unrestricted cash and cash equivalents of \$6,133,624.83 offset by decreases in restricted cash and cash equivalents of \$2,867,837.96 and accounts receivable of \$569,231.13. The increase in unrestricted cash is primarily the result of increases in cash held by auxiliary funds due to strong revenues in 2010. Restricted cash decreased as funds held for capital improvement projects were expended during the year. Accounts receivable decreased because the University collected major receivables for Federal financial aid awards by June 30, 2010.

While noncurrent assets decreased by only \$165,947.49 during the year, there were large changes in the categories that make up that figure. Capital assets increased by \$10,474,572.90, net of depreciation. The increase was the result of current year expenditures for buildings, equipment, and construction in progress. The amount due from primary government decreased by \$6,182,035.28, as large construction projects funded through State bonds were completed by year end. In addition, noncurrent restricted cash decreased by \$9,129,093.52 as the University spent cash that was on hand at June 30, 2009 for capital and maintenance projects during the 2010 fiscal year. Endowment investments increased by \$4,898,549.59, a result of market appreciation as well as investment of gifts and net earnings.

Net assets increased during the year by \$1,224,240.37. Invested in capital assets increased by \$11,686,083.48, primarily a result of amounts expended on buildings and equipment during the year. The increase of nonexpendable net assets resulted primarily from endowment gifts of \$2,033,966.60 with the remaining balance provided by market appreciation. Net assets reserved for capital projects decreased by \$12,956,280.69, the result of 2010 cash expenditures and year end accruals. The remaining restricted net assets decreased by \$244,162.90 as amounts held in restricted funds decreased slightly during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues (expenses), and other revenues (expenses). Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded. The accounting for certain State grants received for scholarships and fellowships was modified in 2010. Those grants, starting with the 2010 fiscal year, are reflected as nonoperating revenue with a corresponding increase in scholarship expense, subject to tuition discounting. In order to enhance comparability, 2009 has been restated.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2010	Restated 2009	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 35,214,804.57	\$ 38,985,057.79	\$ (3,770,253.22)
Grants and Contracts	28,174,079.91	23,009,299.91	5,164,780.00
Federal Appropriations	6,517,982.28	6,346,817.68	171,164.60
Sales and Services	21,165,290.08	20,679,763.23	485,526.85
Other Operating Revenues	1,561,889.86	1,290,478.62	271,411.24
Total Operating Revenues	<u>92,634,046.70</u>	<u>90,311,417.23</u>	<u>2,322,629.47</u>
Operating Expenses			
Salaries and Benefits	151,169,935.52	148,923,991.93	2,245,943.59
Supplies and Materials	18,700,102.25	15,727,406.53	2,972,695.72
Services	39,272,949.87	36,097,936.47	3,175,013.40
Scholarships and Fellowships	20,903,538.94	18,706,713.69	2,196,825.25
Utilities	5,565,272.49	5,277,137.23	288,135.26
Depreciation	10,042,060.49	9,212,210.59	829,849.90
Total Operating Expenses	<u>245,653,859.56</u>	<u>233,945,396.44</u>	<u>11,708,463.12</u>
Operating Loss	<u>(153,019,812.86)</u>	<u>(143,633,979.21)</u>	<u>(9,385,833.65)</u>
Nonoperating Revenues (Expenses)			
State Appropriations	98,818,559.00	89,316,958.46	9,501,600.54
Noncapital Grants and Gifts	57,684,217.76	40,628,926.58	17,055,291.18
Interest and Fees on Debt	(1,038,133.88)	(792,576.36)	(245,557.52)
Grant to Gateway University Research Park	(10,184,267.42)	(5,644,249.90)	(4,540,017.52)
Other Nonoperating Expenses	(234,622.93)	(919,108.69)	684,485.76
Other Nonoperating Revenues	2,222,110.84	(1,083,649.42)	3,305,760.26
Net Nonoperating Revenues (Expenses)	<u>147,267,863.37</u>	<u>121,506,300.67</u>	<u>25,761,562.70</u>
Loss Before Other Revenues (Expenses)	<u>(5,751,949.49)</u>	<u>(22,127,678.54)</u>	<u>16,375,729.05</u>
Other Revenues (Expenses)			
Capital Grants and Gifts	5,133,704.26	491,350.97	4,642,353.29
Refund of Prior Years Capital Appropriations	(191,481.00)	(108,696.07)	(82,784.93)
Additions to Permanent Endowments	2,033,966.60	4,205,936.66	(2,171,970.06)
Total Other Revenues (Expenses)	<u>6,976,189.86</u>	<u>4,588,591.56</u>	<u>2,387,598.30</u>
Total Increase (Decrease) in Net Asset	<u>1,224,240.37</u>	<u>(17,539,086.98)</u>	<u>18,763,327.35</u>
Net Assets - Beginning of the Year	<u>357,569,674.32</u>	<u>375,108,761.30</u>	<u>(17,539,086.98)</u>
Net Assets - End of the year	<u>\$ 358,793,914.69</u>	<u>\$ 357,569,674.32</u>	<u>\$ 1,224,240.37</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in net assets at year end. Highlights of the significant changes are as follows:

Operating revenues increased by \$2,322,629.47. The major categories making up that change are student tuition and fees as well as Federal contracts and grants. Although overall

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

enrollment has increased, tuition and fees decreased by \$3,770,253.22, a result of a decline in out-of-state students. Contracts and grants increased by \$5,164,780.00. The University received funds in 2010 for large grants from the Department of Defense as well as the National Science Foundation.

The University experienced an increase in net nonoperating revenue of \$25,761,562.70. State appropriations increased by \$9,501,600.54 which included an increase of \$3,141,104 in Federal American Recovery and Reinvestment Act funds. The additional appropriations were used for salaries and operational costs for the College of Engineering's Engineering Research Center, established by a grant from the National Science Foundation as well as for the Center of Excellence for Post-Harvest Technology in Kannapolis. The increase in noncapital grants was composed primarily of a substantial increase in PELL financial aid awards of \$8,048,216.00, a state grant for the Joint School of Nanoscience and Nanotechnology in the amount of \$7,380,720.86, and increases in State financial aid grants of \$496,783.00. Investment markets improved significantly during the 2010 fiscal year, resulting in an increase in investment income from the prior year of \$3,305,760.26. These increases in revenue were off-set by an increase in the cost of the construction grant to Gateway University Research Park, Inc. of \$4,540,017.52.

The increase in other revenues of \$2,387,598.30 was due primarily to State grants that fund the construction of a general classroom facility on the University's main campus. The increase in State grants was offset by the reduction in additions to endowments.

The increase in operating expenses of \$11,708,463.12 was spread across all categories. Personnel services increased by only 1.51% or \$2,245,943.59. Supplies and materials increased by \$2,972,695.72, due primarily to costs associated with facility maintenance and repair. The increase in services of \$3,175,013.40 was due in large part to subcontracted expenses associated with the increase in Federal research awards. Scholarships increased by \$2,196,825.25, primarily caused by increases in PELL and State scholarship grants, net of tuition discounting.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 61.54% of operating expenses, followed by services at 15.99%, scholarships at 8.51%, supplies and materials at 7.61%, depreciation at 4.09%, and utility costs at 2.26%.

Capital Assets and Debt Administration

The cost of construction projects has exerted significant influence on the University's financial statements in past fiscal years. Since the passage in November 2000 of a \$2.5 billion bond package for the improvement and expansion of facilities on the 16 campuses of the University of North Carolina system, the University has received \$163,446,758.00 in State construction grants financed by the bond proceeds. All twenty-two of the University's bond-funded projects were completed at June 30, 2010, bringing to a close a nine year period of significant construction activity. During 2010, the University completed the final bond-funded renovation projects for classroom and laboratory buildings totaling \$18,086,549.73. The University started construction on a new classroom facility that made up \$11,352,394.86

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

of the \$12,368,544.91 construction in progress costs at year end. At June 30, 2010, outstanding commitments on construction contracts totaled \$8,144,153.19. These commitments were primarily associated with the new classroom facility under construction. An additional \$47,280,854.96 was committed to Gateway University Research Park, Inc. for the construction of the Joint School of Nanoscience and Nanoengineering classroom and laboratory facility.

Long-term debt totaled \$14,845,000.00 at June 30, 2010. The University reduced outstanding debt by principal payments of \$1,240,000.00 during the year.

Economic Forecast

Despite the increase in State support in fiscal year 2010, current national economic events continue to adversely impact State revenues to the extent that an additional 5 to 10 percent decrease in the authorized budget for 2011 is anticipated. However, University management believes that enrollment growth, increased research activity, and fundraising efforts will provide the resources necessary to maintain and enhance academic programs and campus life experience.

The University will continue to look for financial resources to supplement State appropriations and help maintain the level of services required for academic support functions, financial aid needs, and research activities. The University continues to cultivate support through community and national partnerships as well as alumni relationships.

As University management confronts today's uncertain economic factors, prudent use of resources, cost-containment efforts, and development of other sources of revenues will strengthen the institution and will ensure that it is well positioned to take advantage of the next upturn in the business cycle.

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 41,906,055.14
Restricted Cash and Cash Equivalents	10,549,882.21
Receivables, Net (Note 4)	9,116,023.64
Due from University Component Units	10,230.39
Inventories	2,026,650.66
Notes Receivable (Note 4)	325,554.94
	<hr/>
Total Current Assets	63,934,396.98
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,439,470.69
Receivables (Note 4)	81,100.34
Restricted Due from Primary Government	219,307.86
Endowment Investments	17,434,613.43
Other Investments	1,415.29
Notes Receivable, Net (Note 4)	919,855.97
Capital Assets - Nondepreciable (Note 5)	24,422,685.13
Capital Assets - Depreciable, Net (Note 5)	288,983,887.72
	<hr/>
Total Noncurrent Assets	334,502,336.43
	<hr/>

Total Assets	398,436,733.41
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	11,176,770.98
Due to Primary Government	84,460.39
Unearned Revenues	3,875,298.57
Interest Payable	166,540.63
Long-Term Liabilities - Current Portion (Note 7)	2,085,962.56
	<hr/>
Total Current Liabilities	17,389,033.13
	<hr/>

Noncurrent Liabilities:

Funds Held for Others	96,201.33
U. S. Government Grants Refundable	1,172,712.28
Long-Term Liabilities (Note 7)	20,984,871.98
	<hr/>
Total Noncurrent Liabilities	22,253,785.59
	<hr/>

Total Liabilities	39,642,818.72
	<hr/>

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2010

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	298,610,217.82
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	9,670,242.55
Endowed Professorships	8,226,885.98
Departmental Uses	258,327.46
Loans	275,741.88
Expendable:	
Scholarships and Fellowships	1,958,940.18
Research	287,607.27
Endowed Professorships	945,822.07
Departmental Uses	3,637,192.16
Unrestricted	<u>34,922,937.32</u>
Total Net Assets	<u><u>\$ 358,793,914.69</u></u>

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

***North Carolina Agricultural and Technical State University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 35,214,804.57
Federal Appropriations	6,517,982.28
Federal Grants and Contracts	25,907,341.80
State and Local Grants and Contracts	1,313,910.45
Nongovernmental Grants and Contracts	952,827.66
Sales and Services, Net (Note 9)	21,165,290.08
Interest Earnings on Loans	3,953.25
Other Operating Revenues	1,557,936.61
	<hr/>
Total Operating Revenues	92,634,046.70

EXPENSES

Operating Expenses:	
Salaries and Benefits	151,169,935.52
Supplies and Materials	18,700,102.25
Services	39,272,949.87
Scholarships and Fellowships	20,903,538.94
Utilities	5,565,272.49
Depreciation	10,042,060.49
	<hr/>
Total Operating Expenses	245,653,859.56
	<hr/>
Operating Loss	(153,019,812.86)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	98,818,559.00
Noncapital Grants - Student Financial Aid	26,621,768.37
Other Noncapital Grants	29,873,666.67
Noncapital Gifts	1,188,782.72
Investment Income	2,222,110.84
Interest and Fees on Debt	(1,038,133.88)
Grant to Gateway University Research Park, Inc.	(10,184,267.42)
Other Nonoperating Expenses	(234,622.93)
	<hr/>
Net Nonoperating Revenues	147,267,863.37
	<hr/>
Loss Before Other Revenues or Expenses	(5,751,949.49)
Refund of Prior Years Capital Appropriations	(191,481.00)
Capital Grants	4,617,685.64
Capital Gifts	516,018.62
Additions to Endowments	2,033,966.60
	<hr/>
Increase in Net Assets	1,224,240.37

NET ASSETS

Net Assets - July 1, 2009	<hr/>
	357,569,674.32
Net Assets - June 30, 2010	<hr/>
	\$ 358,793,914.69

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 91,841,558.85
Payments to Employees and Fringe Benefits	(150,917,341.89)
Payments to Vendors and Suppliers	(62,715,605.46)
Payments for Scholarships and Fellowships	(20,903,538.94)
Collection of Loans	199,105.39
Interest Earned on Loans	26,539.79
Other Receipts	1,557,936.61
	<hr/>
Net Cash Used by Operating Activities	(140,911,345.65)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	98,818,559.00
Noncapital Grants - Student Financial Aid	26,484,015.97
Noncapital Grants	29,540,709.25
Noncapital Gifts	1,406,134.62
Additions to Endowments	2,033,966.60
Federal Family Education Loan Receipts	1,062,676.00
Federal Family Education Loan Disbursements	(1,062,676.00)
William D. Ford Direct Lending Receipts	57,944,505.00
William D. Ford Direct Lending Disbursements	(57,944,505.00)
Related Activity Agency Receipts	24,837.19
Related Activity Agency Disbursements	(21,656.86)
Grant to Gateway University Research Park, Inc.	(10,184,267.42)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	148,102,298.35

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Refund of Prior Years Capital Appropriations	(191,481.00)
Capital Grants	10,799,720.92
Acquisition and Construction of Capital Assets	(18,739,075.74)
Principal Paid on Capital Debt	(1,240,000.00)
Interest and Fees Paid on Capital Debt	(1,022,178.84)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(10,393,014.66)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	91,045.99
Investment Income	1,102,496.77
Purchase of Investments and Related Fees	(3,854,787.45)
	<hr/>
Net Cash Used by Investing Activities	(2,661,244.69)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(5,863,306.65)
Cash and Cash Equivalents - July 1, 2009	60,758,714.69
	<hr/>
Cash and Cash Equivalents - June 30, 2010	\$ 54,895,408.04

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Loss	\$ (153,019,812.86)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation/ Amortization Expense	10,042,060.49
Allowances, Write-Offs, and Amortizations	28,609.40
Changes in Assets and Liabilities:	
Receivables (Net)	747,585.17
Due from State of North Carolina Component Units	60,000.00
Due from University Component Units	(10,230.39)
Inventories	(6,515.30)
Notes Receivable (Net)	199,105.39
Accounts Payable and Accrued Liabilities	1,153,018.66
Due to Primary Government	(433,125.87)
Unearned Revenue	50,004.15
Compensated Absences	277,955.51
	<u>277,955.51</u>
Net Cash Used by Operating Activities	<u>\$ (140,911,345.65)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 41,906,055.14
Restricted Cash and Cash Equivalents	10,549,882.21
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,439,470.69
	<u>2,439,470.69</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 54,895,408.04</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 516,018.62
Change in Fair Value of Investments	1,134,554.41
Reinvested Distributions	175,185.02
Loss on Disposal of Capital Assets	(234,662.93)

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

The North Carolina A&T University Foundation, Inc.
Statement of Financial Position
June 30, 2010

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,651,499
Investments	2,543,312
Unconditional Promises to Give	185,709
Accounts Receivable - NCA&TSU	136,979
Other Current Assets	418,499
	<hr/>
Total Current Assets	4,935,998

Restricted Deposits:

Bond Operating Reserve Fund	500,000
Bond Interest Fund	9,313
Bond Surplus Fund	1,524,827
Bond Repair and Replacement Fund	18,265
Bond Debt Service Fund	3,128,703
	<hr/>
Total Restricted Deposits	5,181,108

Endowment Investments:

Investments	4,095,943
	<hr/>
Total Endowment Investments	4,095,943

Property, Furniture and Equipment, at Cost, Net	34,689,584
Long-Term Unconditional Promises to Give, Less Allowance For Uncollectible Promises of \$21,250 for 2010	83,241
Other Assets	3,656,713
	<hr/>
Total Assets	<u>\$ 52,642,587</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Current Maturities of Bonds Payable	\$ 1,165,000
Accounts Payable	78,557
Other Liabilities	363,531
	<hr/>
Total Current Liabilities	1,607,088

Long-Term Liabilities

Bonds Payable, Less Current Maturities	43,265,000
	<hr/>
Total Liabilities	44,872,088

NET ASSETS

Unrestricted:

Operating	(131,249)
Fixed Assets	97,623
	<hr/>
Total Unrestricted	(33,626)

Temporarily Restricted	3,555,184
Permanently Restricted	4,248,941
	<hr/>

Total Net Assets	7,770,499
	<hr/>
Total Liabilities and Net Assets	<u>\$ 52,642,587</u>

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

The North Carolina A&T University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS				
Contributions:				
Foundations and Corporations	\$ 33,674	\$ 914,573	\$ 9,068	\$ 957,315
Board of Directors	13,150	5,500	1,000	19,650
Individuals/Friends	8,304	840,850	57,697	906,851
Interest and Dividends	73,551	108,550	5,945	188,046
Administrative Fee	94,768			94,768
Miscellaneous	6,000	196,031		202,031
Unrealized Gain (Loss) from Investments	321,320	470,266	(33,421)	758,165
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	2,013,462	(2,013,462)		
Rental Income	7,090,103			7,090,103
Management Fees	304,505			304,505
Fundraising	138,032			138,032
Total Public Support, Revenues and Reclassifications	<u>10,096,869</u>	<u>522,308</u>	<u>40,289</u>	<u>10,659,466</u>
EXPENSES				
Programs:				
Scholarships:				
Scholarships - Unrestricted	100,000			100,000
Scholarships - Departmental	846,163			846,163
Total Scholarships	946,163			946,163
Academic Departmental Programs	1,167,299			1,167,299
Administration	793,669			793,669
Student Housing	5,807,348			5,807,348
Transfer to NCA&TSU and Promises to Give Writeoffs			55,937	55,937
Total Expenses	<u>8,714,479</u>		<u>55,937</u>	<u>8,770,416</u>
Changes in Net Assets	1,382,390	522,308	(15,648)	1,889,050
Net Assets as of Beginning of Year	<u>(1,416,016)</u>	<u>3,032,876</u>	<u>4,264,589</u>	<u>5,881,449</u>
Net Assets as of End of Year	<u>\$ (33,626)</u>	<u>\$ 3,555,184</u>	<u>\$ 4,248,941</u>	<u>\$ 7,770,499</u>

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

[This Page Left Blank Intentionally]

NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - The North Carolina A&T University Foundation, Inc. (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 Foundation is a tax-exempt component unit of the University and acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 16 elected members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2010, the Foundation distributed \$1,261,601.14 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the North Carolina A&T University Foundation, Inc., located at 200 North Benbow Road, Greensboro, NC 27411. The mailing address is P.O. Box 20366, Greensboro, NC 27420.

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

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

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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 estimated amounts 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 in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using average cost of last invoice price, first-in, first-out method or in the case of agricultural supplies inventory, current market value. Merchandise for resale is valued using the first in, first out method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater. 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 25 to 50 years for general infrastructure, 10 to 50 years for buildings, and 10 to 25 years for equipment.

The Heritage Center and Art Gallery 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.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable 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 old 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 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 the bookstore, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$54,771,388.87 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 1.6 years as of June 30, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "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, 2010 was \$44,696.97. The carrying amount of the University's deposits not with the State Treasurer was \$79,322.20 and the bank balance was \$68,813.00. Custodial credit risk is the risk that in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2010, the University's bank balance was not exposed to custodial credit risk.

B. Investments

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

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

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

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

Investments of the University's component unit, The North Carolina A&T University Foundation, Inc., are subject to and restricted by G.S. 36E

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

“Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

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 basis of the number of units purchased multiplied by the current unit market value. 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 and investments subject to interest rate risk at June 30, 2010, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Mutual Bond Funds	\$ 1,231,876.05	\$ 0.00	\$ 0.00	\$ 1,231,876.05
Other Securities				
UNC Investment Fund	14,851,834.31			
Other Mutual Funds	1,339,213.07			
Investments in Real Estate	11,690.00			
Total Long-Term Investment Pool	\$ 17,434,613.43			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2010, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	A
Mutual Bond Funds	\$ 1,231,876.05	\$ 1,231,876.05

Reporting Agency: Morningstar

At June 30, 2010, investments in the Long-Term Investment Pool were not exposed to custodial credit risk.

UNC Investment Fund, LLC - At June 30, 2010, the University's investments include \$14,851,834.31 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. 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 - At year end, the University held a money market fund investment with a fair value \$1.00 and a maturity level of less than 1 year. The fund is unrated. Also, the University held domestic stocks with a fair value of \$1,414.29.

Total Investments - The following table presents the fair value of the total investments at June 30, 2010:

	Fair Value
Investment Type	
Debt Securities	
Mutual Bond Funds	\$ 1,231,876.05
Money Market Mutual Funds	1.00
Other Securities	
UNC Investment Fund	14,851,834.31
Other Mutual Funds	1,339,213.07
Investments in Real Estate	11,690.00
Domestic Stocks	1,414.29
Total Investments	\$ 17,436,028.72

Component Units - Investments of the University's discretely presented component unit, The North Carolina A&T University Foundation, Inc.,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

are subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The Foundation’s investments include mutual funds administered by Charles Schwab in the amount of \$6,625,285.00 and stock in the amount of \$13,970.00. The total amount of the investments for The North Carolina A&T University Foundation, Inc., is \$6,639,255.00.

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on an adopted spending policy which limits spending to not more than 5% of the endowment principal’s average market value at December 31st for the prior three years. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University may use accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2010, endowment net assets of \$873,054.68 were available to be spent, of which \$873,054.68 was restricted to specific purposes.

During the past years, the University incurred investment losses that exceeded the related endowment’s available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2010 the amount of investment losses reported against the nonexpendable endowment balances were \$958,324.62. Due to the decline in the stock market during recent years, the Endowment Board has taken action to stop the spending of those endowments that are currently “underwater.”

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 645,971.40	\$ 413,035.70	\$ 232,935.70
Accounts	443,495.47	58,045.00	385,450.47
Intergovernmental	7,718,817.40		7,718,817.40
Pledges	70,000.00		70,000.00
Investment Earnings	58,171.90		58,171.90
Interest on Loans	140,877.97		140,877.97
Other	509,770.20		509,770.20
Total Current Receivables	<u>\$ 9,587,104.34</u>	<u>\$ 471,080.70</u>	<u>\$ 9,116,023.64</u>
Noncurrent Receivables:			
Pledges	<u>\$ 81,100.34</u>	<u>\$ 0.00</u>	<u>\$ 81,100.34</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 325,554.94</u>	<u>\$ 0.00</u>	<u>\$ 325,554.94</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,544,301.01</u>	<u>\$ 624,445.04</u>	<u>\$ 919,855.97</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital Assets, Nondepreciable:				
Land	\$ 9,192,458.42	\$ 359,604.80	\$ 0.00	\$ 9,552,063.22
Art, Literature, and Artifacts	2,502,077.00			2,502,077.00
Construction in Progress	16,053,766.17	10,771,507.31	14,456,728.57	12,368,544.91
Total Capital Assets, Nondepreciable	<u>27,748,301.59</u>	<u>11,131,112.11</u>	<u>14,456,728.57</u>	<u>24,422,685.13</u>
Capital Assets, Depreciable:				
Buildings	301,870,485.71	19,410,160.86		321,280,646.57
Machinery and Equipment	47,441,464.86	4,117,120.34	700,932.86	50,857,652.34
General Infrastructure	17,168,634.34	549,591.58		17,718,225.92
Total Capital Assets, Depreciable	<u>366,480,584.91</u>	<u>24,076,872.78</u>	<u>700,932.86</u>	<u>389,856,524.83</u>
Less Accumulated Depreciation for:				
Buildings	68,457,365.42	6,379,363.35		74,836,728.77
Machinery and Equipment	19,184,476.43	3,093,251.65	466,309.93	21,811,418.15
General Infrastructure	3,655,044.70	569,445.49		4,224,490.19
Total Accumulated Depreciation	<u>91,296,886.55</u>	<u>10,042,060.49</u>	<u>466,309.93</u>	<u>100,872,637.11</u>
Total Capital Assets, Depreciable, Net	<u>275,183,698.36</u>	<u>14,034,812.29</u>	<u>234,622.93</u>	<u>288,983,887.72</u>
Capital Assets, Net	<u>\$ 302,931,999.95</u>	<u>\$ 25,165,924.40</u>	<u>\$ 14,691,351.50</u>	<u>\$ 313,406,572.85</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 7,514,753.84
Accrued Payroll	2,842,149.96
Contract Retainage	485,007.39
Intergovernmental Payables	200,636.29
Other	134,223.50
Total Accounts Payable and Accrued Liabilities	\$ 11,176,770.98

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	\$ 16,085,000.00	\$ 0.00	\$ 1,240,000.00	\$ 14,845,000.00	\$ 1,285,000.00
Add/Deduct Premium/Discount	390,828.61		30,333.18	360,495.43	
Deduct Deferred Charge on Refunding	(467,963.00)		(58,822.60)	(409,140.40)	
Total Revenue Bonds Payable	16,007,865.61		1,211,510.58	14,796,355.03	1,285,000.00
Compensated Absences	7,996,524.00	5,549,529.85	5,271,574.34	8,274,479.51	800,962.56
Total Long-Term Liabilities	\$ 24,004,389.61	\$ 5,549,529.85	\$ 6,483,084.92	\$ 23,070,834.54	\$ 2,085,962.56

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010	See Table Below
Revenue Bonds Payable							
The University of North Carolina System Pool Revenue Bonds							
Parking System	(A)	3.25-5.25	10/01/2013	\$ 1,465,000.00	\$ 975,000.00	\$ 490,000.00	(1)
Stadium System	(B)	5.00-5.75	10/01/2012	1,555,000.00	1,045,000.00	510,000.00	(2)
Student Union	(C)	3.00-4.89	04/01/2014	2,395,000.00	475,000.00	1,920,000.00	
Parking Deck	(D)	3.75-5.00	10/01/2033	5,965,000.00	290,000.00	5,675,000.00	
Dining System	(D)	3.75-5.00	10/01/2020	7,525,000.00	1,275,000.00	6,250,000.00	
Total UNC System Pool Revenue Bonds				18,905,000.00	4,060,000.00	14,845,000.00	
Less: Unamortized Loss on Refunding						(409,140.40)	
Less: Unamortized Discount						(2,057.05)	
Plus: Unamortized Premium						362,552.48	
Total Revenue Bonds Payable (principal only)						<u>\$ 14,796,355.03</u>	

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B

(B) The University of North Carolina System Pool Revenue Bonds, Series 2000

(C) The University of North Carolina System Pool Revenue Bonds, Series 2005A

(D) The University of North Carolina System Pool Revenue Bonds, Series 2006B

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Parking Fees	\$ 542,259.38	\$ 733,614.21	\$ 110,000.00	\$ 26,093.00	19%
(2)	Stadium System	552,625.00	364,599.59	150,000.00	28,725.00	49%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010, are as follows:

Fiscal Year	Annual Requirements	
	Principal	Interest
2011	\$ 1,285,000.00	\$ 648,446.89
2012	1,345,000.00	590,031.26
2013	1,400,000.00	528,675.01
2014	1,285,000.00	468,456.26
2015	660,000.00	413,993.76
2016-2020	3,745,000.00	1,635,900.05
2021-2025	1,630,000.00	987,815.65
2026-2030	1,615,000.00	686,275.00
2031-2034	1,880,000.00	190,400.00
Total Requirements	<u>\$ 14,845,000.00</u>	<u>\$ 6,149,993.88</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. 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, 2010, the outstanding balance of prior year defeased bonds was \$6,675,000.00
- E. Component Unit** - The North Carolina A&T University Foundation Inc., issued bonds to finance the construction of student housing. Bonds payable for the Foundation at June 30, 2010, were \$44,430,000.00.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 148,732.92
2012	40,141.80
2013	29,575.55
2014	9,648.00
Total Minimum Lease Payments	<u>\$ 228,098.27</u>

Rental expense for all operating leases during the year was \$545,861.67.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 58,178,528.39	\$ 0.00	\$ 22,559,039.28	\$ 404,684.54	\$ 35,214,804.57
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 9,511,812.90	\$ 0.00	\$ 3,469,427.68	\$ 57,180.24	\$ 5,985,204.98
Dining	9,286,800.38		3,617,207.75	58,931.89	5,610,660.74
Student Union Services	22,472.05				22,472.05
Health, Physical Education, and Recreation Services	2,360.00				2,360.00
Bookstore	5,562,308.71	112,917.48		34.50	5,449,356.73
Parking	1,396,851.34			(37,275.12)	1,434,126.46
Athletic	2,152,649.57				2,152,649.57
Other	408,074.75				408,074.75
Sales and Services of Education and Related Activities	2,084,363.29	1,983,978.49			100,384.80
Total Sales and Services	\$ 30,427,692.99	\$ 2,096,895.97	\$ 7,086,635.43	\$ 78,871.51	\$ 21,165,290.08

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 69,104,095.33	\$ 1,940,088.39	\$ 1,574,422.37	\$ 549,251.32	\$ 9,757.82	\$ 0.00	\$ 73,177,615.23
Research	16,872,816.92	2,507,824.71	9,035,872.24	1,287,368.72	(5.42)		29,703,877.17
Public Service	4,979,178.03	881,662.69	2,219,331.82	280,160.76			8,360,333.30
Academic Support	15,559,722.18	5,775,225.58	5,502,060.97	1,754,395.90	544.85		28,591,949.48
Student Services	5,868,948.25	297,854.09	913,047.71	90,422.90			7,170,272.95
Institutional Support	16,712,648.07	807,593.34	5,247,822.96	257,941.37	3,038.73		23,029,044.47
Operations and Maintenance of Plant	9,351,045.93	1,316,397.19	2,831,938.96		3,938,560.34		17,437,942.42
Student Financial Aid	286,688.23	70,635.09	116,277.40	14,201,709.32			14,675,310.04
Auxiliary Enterprises	12,434,792.58	5,102,821.17	11,832,175.44	2,482,288.65	1,613,376.17		33,465,454.01
Depreciation						10,042,060.49	10,042,060.49
Total Operating Expenses	\$ 151,169,935.52	\$ 18,700,102.25	\$ 39,272,949.87	\$ 20,903,538.94	\$ 5,565,272.49	\$ 10,042,060.49	\$ 245,653,859.56

NOTE 11 - PENSION PLANS

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

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$123,319,166.47, of which \$70,672,700.79 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,523,015.42 and \$4,240,362.05, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$2,523,015.42, \$2,263,691.30, and \$1,923,706.79, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2010, 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 \$123,319,166.47, of which \$34,840,817.45 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,383,111.91 and \$2,090,449.05, respectively.

The Federal Retirement System is a multiple-employer system. University extension employees participate in the Civil Service Retirement System (CSRS), a program for participants employed prior to January 1, 1987. Participants contributed 7% of their salary to CSRS and University match was 7%. For the year ended June 30, 2010, covered payroll was \$712,454.71, and total employer and employee contributions were \$49,871.83 each.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$283,984.61 for the year ended June 30, 2010.

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 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, 2010, were \$52,782.69. The voluntary contributions by employees amounted to \$509,883.00 for the year ended June 30, 2010.

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 \$1,182,544.97 for the year ended June 30, 2010.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

For the current fiscal year the University contributed 4.5% 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, 2009, and 2008, were 4.1% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$4,748,108.32, \$4,298,029.38, and \$3,968,876.02, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$548,670.29, \$545,115.92, and \$503,369.64, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

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, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health 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 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$8,144,153.19 and on other purchases were \$9,439,353.13 at June 30, 2010.

B. Pending Litigation and Claims

- 1) The University is party to a legal action and a potential legal action that may result in liabilities to the University of up to \$1,000,000 each.
- 2) The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- C. Commitment to Gateway University Research Park, Inc.** - The University has established a commitment to Gateway University Research Park, Inc. in the amount of \$47,280,854.96 for the payment of future construction costs incurred by Gateway for the building of the Joint School of Nanoscience and Nanoengineering.
- D. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

<u>Purpose</u>	<u>Amount</u>
Pledges to Endowments	<u><u>\$ 1,033,237.40</u></u>

NOTE 15 - RELATED PARTIES

The University and the University of North Carolina at Greensboro have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization and discovery while encouraging and promoting economic development.

During the fiscal year, the University made payments and incurred additional liabilities totaling \$10,184,267.42 to Gateway University Research Park, Inc. for the construction of a new research and classroom facility on the south campus to be known as the Joint School of Nanoscience and Nanoengineering.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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 Agricultural and Technical State University
Greensboro, North Carolina

We have audited the financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 8, 2011. Our report includes a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

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 North Carolina A&T University Foundation, Inc. as described in our report on the University's financial statements. The financial statements of The North Carolina A&T 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions,

**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)**

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

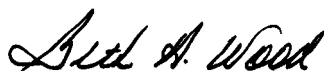
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency.

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*.

The University's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the University's response and, accordingly, we express no opinion on it.

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

February 8, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The University's financial statements contained misclassifications that were corrected as a result of our audit. Furthermore, the University's financial package (financial statements, notes to the financial statements, and management's discussion and analysis) was not provided timely to the Office of the State Auditor. The fact that the financial information contained misstatements and was not provided timely indicates that the University has not implemented effective internal control over financial reporting. We identified the following misclassifications as a result of our audit:

- The University misclassified \$7.7 million in current intergovernmental receivables as current due from primary government.
- The University misclassified \$219,308 of noncurrent due from primary government as noncurrent intergovernmental receivables.
- The University did not properly classify net assets on the statement of net assets. Adjustments were required to reclassify \$661,635 between nonexpendable net assets categories for scholarships and fellowships, endowed professorships, departmental uses, loans, restricted for specific programs, and other.
- The University misclassified \$7.4 million of noncapital revenues as capital revenues.

University officials certify to the Office of State Controller that the financial package will be made available to the State Auditor by September 30, 2010. Auditors received the components of the financial statement package as follows:

- The statement of net assets and the statement of revenues, expenses, and changes in net assets were provided to auditors on October 15, 2010.
- The notes to the financial statements were provided to auditors on October 20, 2010.
- The statement of cash flows was provided to auditors on October 26, 2010.
- Management's discussion and analysis was provided to auditors on October 29, 2010.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States. Management is also responsible for the timely submission of its financial statements, notes to the financial statements, and management's discussion and analysis.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: We recommend that the University enhance its internal control to ensure timely and accurate financial reporting.

University Response: We concur with the recommendation. The University's financial statement review committee will be charged with insuring a timely, consistent and accurate review of the financial statements.

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:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647