



STATE OF NORTH CAROLINA

NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, 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 CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

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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 E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Central University

We have completed a financial statement audit of North Carolina Central University for the year ended June 30, 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.

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

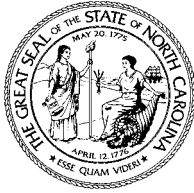
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited the accompanying financial statements of North Carolina Central University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 NCCU Real Estate Foundation, Inc., which represents 6% and 1% percent, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

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

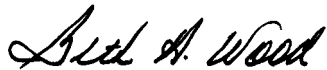
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Central University and its discretely presented component unit as of June 30, 2010, and the respective 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 17 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 March 29, 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

March 29, 2011

NORTH CAROLINA CENTRAL UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Brief Institutional Highlights

Throughout the year, the University continued its dedication to ensuring student success across the University community. The Quality Enhancement Plan (QEP) theme of "Communicating to Succeed" was institutionalized with the completion of a QEP Studio devoted entirely to the writing and speaking success of our students. Through the Centennial Scholars program, much focus was placed on enriching the learning experience and environment for our African American males. This program nurtured 100 males and engrained upon them the definition of excellence in the classroom.

Additionally, the University was reaccredited by the Southern Association of Colleges and Schools (SACS). The University was ranked the number one public HBCU (Historically Black Colleges and Universities) in World News and Reports and the School of Law was judged best value by the National Jurist magazine.

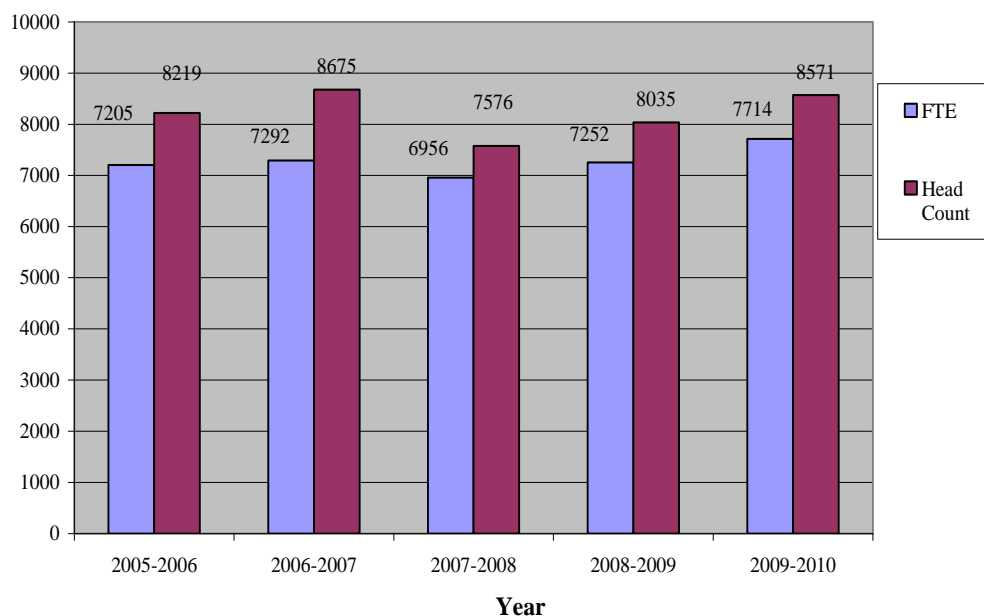
Adjusted State appropriations were \$83.9 million for fiscal year 2010, which was a 10.6% increase over fiscal year 2009. This increase is due to not having state-mandated budget and spending restrictions in effect as in fiscal year 2009 when the state froze the filling of vacancies and restricted spending to essential classroom items. The total University budget, including receipts, for fiscal year 2010 was \$129.2 million as compared to \$136.6 million in 2009, a 5.4% decrease. The decrease in the University's total budget was a result of sustaining state cuts to the permanent budget for fiscal year 2010.

The Office of Institutional Advancement continued raising the awareness of the importance of giving during the University's centennial year. During the fiscal year, the Office of Institutional Advancement generated \$5.3 million in total fundraising, which includes pledges and other gifts of \$3.3 million to the North Carolina Central University Foundation, Inc.

During the past academic year, the University's total enrollment increased by 536 students (7%) for the fall 2009 compared with fall 2008. The University continued its efforts in recruiting talented students and enrolled one National Achievement semifinalist.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FTE and Head Count from 2005 to 2010



Financial Highlights

Condensed Statement of Net Assets

Assets	2010	2009
Current Assets	\$ 30,213,916	\$ 27,127,728
Capital Assets, Net	238,117,368	221,196,627
Other Assets	64,084,189	22,621,761
Total Assets	332,415,473	270,946,116
Liabilities		
Current Liabilities	16,809,817	18,088,135
Noncurrent Liabilities	95,568,588	35,218,290
Total Liabilities	112,378,405	53,306,425
Net Assets		
Invested in Capital Assets, Net of Related Debt	194,885,998	190,095,886
Restricted - Expendable	9,235,200	14,430,175
Restricted - Nonexpendable	13,047,872	12,721,644
Unrestricted	2,867,998	391,986
Total Net Assets	\$ 220,037,068	\$ 217,639,691

The Statement of Net Assets reports all assets and liabilities of the University; additionally, the statement classifies those assets and liabilities as current and noncurrent depending on the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

availability of the assets or satisfaction of the obligation within 12 months (current) or longer. This statement also reports the net assets, which is the difference between the total assets and total liabilities. The reader may use the net assets to gauge the financial position of the University as of June 30, 2010.

As of June 30, 2010, the University's total assets were \$332.4 million as compared to \$270.9 million in the prior year, an increase of \$61.5 million. This increase is due to having borrowed \$60.7 million through the University of North Carolina (UNC) System Pool Revenue Bonds, Series 2009C of which \$44.3 million remained unspent at year end. The funds were borrowed for the construction of a new residence hall, parking deck, and renovation of the Walker Athletic Complex.

The University's liabilities totaled \$112.4 million at June 30, 2010 and \$53.3 million at June 30, 2009. The June 30, 2010 balance consisted primarily of the debt service on the student housing bonds (\$25.6 million) and the UNC System Pool Revenue Bonds, Series 2009C (\$60.7 million). The increase in liabilities is \$59.1 million and is directly attributable to the University having participated in the Fall 2009 UNC System Bond Pool.

The total current liabilities of \$16.8 million were covered 1.8 times by current assets of \$30.2 million, which indicates the University's ability to pay current liabilities as they become due. Total net assets are \$220 million, which is an increase of \$2.4 million from the prior year. This change is directly related to unrestricted net assets increasing by \$2.4 million as a result of stabilizing housing expenditures and no longer leasing off-campus housing.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2010	2009
Operating Revenues		
Student Tuition and Fees, Net	\$ 32,955,442	\$ 32,698,123
Contracts and Grants	8,099,123	4,441,155
Sales and Services, Net	18,149,809	22,613,824
Other Operating Revenues	651,868	966,510
Total Operating Revenues	59,856,242	60,719,612
Operating Expenses		
Salaries and Benefits	110,929,926	106,346,063
Supplies and Materials	14,022,869	17,016,398
Services	32,493,546	35,121,568
Scholarships and Fellowships	12,982,899	9,854,492
Utilities	5,026,724	4,372,741
Depreciation	7,188,423	7,175,899
Operating Expenses	182,644,387	179,887,161
Operating Loss	(122,788,145)	(119,167,549)
Nonoperating Revenues and Expenses		
State Appropriations	83,871,676	75,836,451
State Aid - Federal Recovery Funds	4,678,200	2,927,219
Noncapital Grants	33,624,349	26,602,471
Noncapital Gifts	147,961	266,890
Investment Income (Loss)	1,635,025	(3,345,014)
Other Nonoperating Expenses	(1,042,055)	(592,301)
Income (Loss) Before Other Revenues	127,011	(17,471,833)
Capital Appropriations		701,797
Capital Grants	2,265,566	3,641,882
Capital Gifts	4,800	153,000
Total Other Revenues	2,270,366	4,496,679
Increase (Decrease) in Net Assets	2,397,377	(12,975,154)
Net Assets- Beginning of the Year	217,639,691	230,614,845
Net Assets - End of Year	\$ 220,037,068	\$ 217,639,691

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

Operating revenues of \$59.9 million at June 30, 2010, decreased by \$863 thousand when compared to 2009. Although the total change is not significant, there were noticeable changes in contracts and grants and sales and services revenues. Contracts and grants

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

increased \$3.7 million as a result of increased funding for research grants such as National Science Foundation (Crest), National Aeronautics and Space Administration (CADRE), and the National Institutes of Health (MBRS). Sales and services decreased \$4.5 million as a result of no longer leasing a 564-bed off-campus apartment complex for students who in turn paid housing fees to the University.

Operating expenses of \$182.6 million at June 30, 2010, increased by \$2.8 million when compared to 2009. Salaries and benefits for University employees, supplies and materials, services, and scholarships and fellowships were the major components of this change. Salaries and benefits increased \$4.6 million due to filling vacant positions, increases in faculty and staff due to growth of certain programs, and increases to the University's share of health insurance premiums and retirement contributions. Supplies and materials decreased \$3 million due to a decline in the purchase of materials for repairs on the steam line projects, which was substantially completed in 2009. Services decreased \$2.6 million due to the University no longer incurring rental expenses for leasing off-campus student housing, as mentioned previously. Scholarships and fellowships increased \$3.1 million due to an increase of federally funded student financial aid for Pell, SEOG, and other grants as discounted.

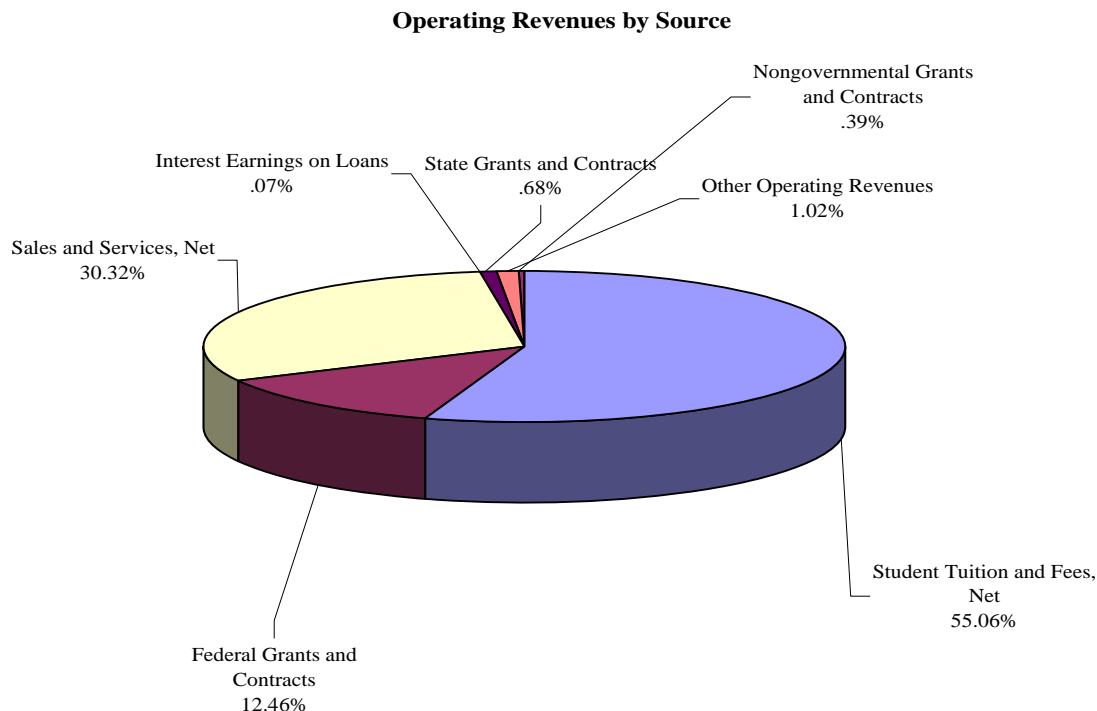
Overall, the University sustained a total operating loss of \$122.8 million in the current fiscal year, which is \$3.6 million more than the loss in fiscal year 2009. Operating losses are likely to continue due, in part, to the accounting requirement to categorize state appropriations (a major source of funding) as nonoperating revenues. In 2010, state appropriations were \$83.9 million.

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

Of the nonoperating revenues (\$122.9 million), there were noticeable changes in the state appropriations, noncapital grants, and investment income. State appropriations increased by \$8 million as a result of not having state-mandated budget and spending restrictions in effect as in fiscal year 2009; therefore, in fiscal year 2010 the University was allowed to spend more of its appropriated funds to fill vacant positions and purchase other basic educational materials. Noncapital grants increased by \$7 million due to the increase in Pell funding. Investment income increased by \$5 million and is attributable to the realized and unrealized gains on Endowment Investments due to global market rebounds.

At the end of the fiscal year, the state of North Carolina received federal recovery funds to stabilize the state's budget. The University received \$4.7 million, which was recorded as nonoperating revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Capital Assets and Debt Administration

The Construction in Progress balance at June 30, 2010 was \$22 million, which primarily consisted of three major projects: new student housing (\$4.3 million), parking deck (\$10.8 million), and the nursing building (\$2.1 million). Outstanding commitments for ongoing construction projects were \$43.4 million as of June 30, 2010. For additional information concerning Capital Assets, see Notes 1(H), 6, and 16(A) in the Notes to the Financial Statements.

As of June 30, 2010, the University had \$87 million in outstanding bonds and notes payable of which \$60.7 million was for outstanding bonds as a result of the University participating in the issuance of the UNC System Pool Revenue Bonds, Series 2009C to complete the construction of student housing, a parking deck and renovations to the Walker Athletic Complex.

For additional information concerning debt administration, see Note 9 in the Notes to the Financial Statements.

Economic Outlook

Given the continued economic conditions of the state and nation, North Carolina Central University recognizes the inevitable impact that such conditions will have upon the campus community. Budgetarily, the University will see reductions in its appropriations to adjust for

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

expected decreases in the State's revenues. For 2010-2011, the University's budget was reduced by 4% and it has been required to reserve 1% of appropriations; therefore a total impact of 5% (\$4.4 million) on appropriated funds. In response to the unstable economy, the University will continue to strategically manage vacant positions, reorganize and restructure departmental units to be more efficient, purchase only goods and services critical to daily operations, limit travel to that which enhances delivery of services to all customers, and enhance fundraising strategies for private contributions.

Even though the economy is slowly rebounding, North Carolina Central has continued to see an increased applicant pool. Total enrollment reached 8,645 for fall 2010. The Fall 2010 retention rate was 69% as a result of the efforts and resources invested into the repurposed University College to focus intensely on student success and competitiveness.

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

North Carolina Central University
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 5,203,236
Restricted Cash and Cash Equivalents	10,112,310
Restricted Short-Term Investments	1,614,380
Receivables, Net (Note 5)	10,627,963
Due from University Component Units	1,967,715
Inventories	560,683
Notes Receivable, Net (Note 5)	127,629
Total Current Assets	<u>30,213,916</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	43,154,128
Restricted Due from Primary Government	257,098
Restricted Due from State of North Carolina Component Units	359,154
Endowment Investments	15,585,274
Deferred Charges	550,373
Deferred Outflow of Resources (Note 4)	1,051,668
Notes Receivable, Net (Note 5)	3,126,494
Capital Assets - Nondepreciable (Note 6)	29,727,021
Capital Assets - Depreciable, Net (Note 6)	208,390,347
Total Noncurrent Assets	<u>302,201,557</u>

Total Assets	<u>332,415,473</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	12,147,364
Due to Primary Government	148,511
Funds Held for Others	1,967,715
Unearned Revenue	255,533
Interest Payable	95,098
Long-Term Liabilities - Current Portion (Note 9)	2,195,596
Total Current Liabilities	<u>16,809,817</u>

Noncurrent Liabilities:

Deposits Payable	400
Funds Held for Others	376,131
U. S. Government Grants Refundable	2,396,459
Hedging Derivative Liability (Note 4)	1,051,668
Long-Term Liabilities (Note 9)	91,743,930
Total Noncurrent Liabilities	<u>95,568,588</u>

Total Liabilities	<u>112,378,405</u>
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North Carolina Central University
Statement of Net Assets
June 30, 2010

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	194,885,998
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,272,939
Endowed Professorships	7,693,854
Loans	1,081,079
Expendable:	
Scholarships and Fellowships	1,647,801
Research	608,995
Endowed Professorships	2,835,960
Debt Service	4,132,830
Other	9,614
Unrestricted	2,867,998
Total Net Assets	<u><u>\$ 220,037,068</u></u>

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

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

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 11)	\$ 32,955,442
Federal Grants and Contracts	7,460,434
State and Local Grants and Contracts	405,138
Nongovernmental Grants and Contracts	233,551
Sales and Services, Net (Note 11)	18,149,809
Interest Earnings on Loans	39,603
Other Operating Revenues	612,265
	<hr/>
Total Operating Revenues	59,856,242
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	110,929,926
Supplies and Materials	14,022,869
Services	32,493,546
Scholarships and Fellowships	12,982,899
Utilities	5,026,724
Depreciation	7,188,423
	<hr/>
Total Operating Expenses	182,644,387
	<hr/>
Operating Loss	(122,788,145)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	83,871,676
State Aid- Federal Recovery Funds	4,678,200
Noncapital Grants - Student Financial Aid	22,336,684
Other Noncapital Grants	11,287,665
Noncapital Gifts	147,961
Investment Income (Net of Investment Expense of \$80,577)	1,635,025
Interest and Fees on Debt	(1,621,881)
Other Nonoperating Revenues	579,826
	<hr/>
Net Nonoperating Revenues	122,915,156
	<hr/>
Income Before Other Revenues, Expenses, Gains, or Losses	127,011
	<hr/>
Capital Grants	2,265,566
Capital Gifts	4,800
	<hr/>
Increase in Net Assets	2,397,377
	<hr/>

NET ASSETS

Net Assets - July 1, 2009	217,639,691
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Net Assets - June 30, 2010	\$ 220,037,068
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The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Central University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 59,170,322
Payments to Employees and Fringe Benefits	(110,579,232)
Payments to Vendors and Suppliers	(52,537,546)
Payments for Scholarships and Fellowships	(12,982,899)
Loans Issued	(400,735)
Collection of Loans	207,962
Interest Earned on Loans	44,928
Other Receipts	118,127
	<hr/>
Net Cash Used by Operating Activities	(116,959,073)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	83,871,676
State Aid - Federal Recovery Funds	4,678,200
Noncapital Grants - Student Financial Aid	22,336,684
Other Noncapital Grants	11,580,983
Noncapital Gifts	147,961
William D. Ford Direct Lending Receipts	77,853,737
William D. Ford Direct Lending Disbursements	(77,853,737)
Related Activity Agency Receipts	303,507
Related Activity Agency Disbursements	(175,897)
Other Receipts	579,826
	<hr/>
Net Cash Provided by Noncapital Financing Activities	123,322,940

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	60,492,015
Capital Grants	3,227,336
Acquisition and Construction of Capital Assets	(21,052,339)
Principal Paid on Capital Debt and Leases	(4,736,821)
Interest and Fees Paid on Capital Debt and Leases	(1,547,346)
Other Payments	(550,373)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	35,832,472

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	4,097,929
Investment Income	535,172
Purchase of Investments and Related Fees	(5,828,934)
	<hr/>
Net Cash Used by Investing Activities	(1,195,833)
	<hr/>
Net Increase in Cash and Cash Equivalents	41,000,506
Cash and Cash Equivalents - July 1, 2009	17,469,168
	<hr/>
Cash and Cash Equivalents - June 30, 2010	\$ 58,469,674

North Carolina Central 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 USED BY OPERATING ACTIVITIES**

Operating Loss	\$	(122,788,145)
Adjustments to Reconcile Operating Loss to Net Cash Provided Used by Operating Activities:		
Depreciation Expense		7,188,423
Allowances and Write-Offs		(295,011)
Changes in Assets and Liabilities:		
Receivables (Net)		(337,722)
Inventories		(46,267)
Notes Receivable (Net)		218,958
Accounts Payable and Accrued Liabilities		663,830
Due to Primary Government		(1,411,268)
Due to Federal Agencies		(151,182)
US Government Grants Refundable		(147,899)
Unearned Revenue		123,019
Compensated Absences		24,191
Net Cash Used by Operating Activities	\$	<u>(116,959,073)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	5,203,236
Restricted Cash and Cash Equivalents		10,112,310
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>43,154,128</u>
Total Cash and Cash Equivalents - June 30, 2010	\$	<u>58,469,674</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$	4,800
Assets Acquired through the Assumption of a Liability		5,187,764
Change in Fair Value of Investments		799,050

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

North Carolina Central University Foundation, Inc.
Statement of Financial Position
June 30, 2010

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	1,549,018
Investments		9,293,234
Cash Surrender Value of Life Insurance		160,436
Accounts Receivable, Related Party		447,206
Contributions Receivable, Net		209,402
Property, Plant, and Equipment, Net		<u>220,084</u>
Total Assets		<u>11,879,380</u>

LIABILITIES

Accounts Payable and Accrued Expenses		8,160
Accounts Payable, Related Party		161,308
Capital Lease Obligations		192,396
Funds Held on Behalf of Others		<u>1,777,464</u>
Total Liabilities		<u>2,139,328</u>

NET ASSETS

Unrestricted		679,023
Temporarily Restricted		1,456,055
Permanently Restricted		<u>7,604,974</u>
Total Net Assets	\$	<u><u>9,740,052</u></u>

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

North Carolina Central University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Revenues, Gains, and Other Support:				
Contributions	\$ 63,773	\$ 1,146,439	\$ 397,926	\$ 1,608,138
Interest and Dividends	130,711	78,101	4,666	213,478
Realized and Unrealized Gains on Investments	566,457	132,846		699,303
Other Income	122,631	188,581		311,212
Net Assets Released from Donor Restrictions	1,755,447	(1,755,447)		
Total Revenues, Gains, and Other Support	2,639,019	(209,480)	402,592	2,832,131
EXPENSES				
Program Services:				
Scholarships and Grants	697,017			697,017
University Support	894,497			894,497
Management and General	324,103			324,103
Bad Debt Losses (Recoveries)		107,529	(33,786)	73,743
Total Expenses and Losses	1,915,617	107,529	(33,786)	1,989,360
Changes in Net Assets Before Asset Transfers	723,402	(317,009)	436,378	842,771
Transfer from North Carolina Central University for Capital Lease Payment	55,985			55,985
Transfer of Endowments to North Carolina Central University	308,858		(470,166)	(161,308)
Changes in Net Assets	1,088,245	(317,009)	(33,788)	737,448
NET ASSETS				
Net Assets - July 1, 2009	(409,222)	1,773,064	7,638,762	9,002,604
Net Assets - June 30, 2010	\$ 679,023	\$ 1,456,055	\$ 7,604,974	\$ 9,740,052

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

NORTH CAROLINA CENTRAL UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

During the year ended June 30, 2010, the NCCU Foundation distributed \$894,497 to the University for both restricted and unrestricted purposes. The University remitted \$180,583 in payroll deducted employee contributions and \$308,158 in other reimbursements to the NCCU Foundation. Complete financial statements for the NCCU Foundation can be obtained from the University's Comptroller's Office, 1801 Fayetteville Street, Durham NC 27702 or by calling 919-530-7432.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or 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 (decrease) in the fair value of investments is recognized as a component of investment income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Land is capitalized regardless of cost. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

Art collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refunds are amortized over the life of the new debt using the straight-line method. Issuance costs are amortized over the life of the bonds.

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

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

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

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

Invested in Capital Assets, Net of Related Debt - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$56,774,481 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 \$1,900. The carrying amount of the University's deposits not with the State Treasurer was \$1,693,293 and the bank balance was \$1,693,293. Custodial credit risk is the risk that in 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 uninsured and uncollateralized bank balance was \$1,380,703.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Bond proceeds from the 2009C bond issue shall be invested in Investments Securities as defined in the Series Indenture. After the third anniversary of the issuance of the 2009C Bonds, funds remaining shall be invested in accordance with the Tax Certificate.

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

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

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income. Purchases in the investments funds are allowed at the beginning of each month. Fund ownership is measured based on the participating funds purchases and accumulated gain/loss investment. This investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

Investments are subject to the following risks.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the Long-Term Investment Pool.

Long-Term Investment Pool

	Fair Value
Investment Type	
UNC Investment Fund	\$ 13,372,070

UNC Investment Fund, LLC - At June 30, 2010, the University's investments include \$13,372,070 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 - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the University's non-pooled investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments

	Investment Maturities (in Years)	
	Fair Value	Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	\$ 572,370	<u>\$ 572,370</u>
Other Securities		
Domestic Stocks	<u>3,255,214</u>	
Total Non-Pooled Investments	<u>\$ 3,827,584</u>	

At June 30, 2010 the University's non-pooled investments included \$572,370 in unrated Money Market Mutual Funds.

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

	Fair Value
Investment Type	
Debt Securities	
Money Market Mutual Funds	\$ 572,370
Other Securities	
UNC Investment Fund	13,372,070
Domestic Stocks	<u>3,255,214</u>
Total Investments	<u>\$ 17,199,654</u>

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

	Fair Value
Investment Type	
Cash and Cash Equivalents	\$ 150,815
Equity Securities	4,051,886
Debt Securities	1,435,575
U.S. Government Obligations	1,330,210
Mutual Funds	1,141,917
Exchange Traded Funds	264,406
Alternative Investments	<u>918,425</u>
Total Investments	<u>\$ 9,293,234</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5.5% of the endowment principal's market value. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2010, endowment net assets of \$3,632,372 were available to be spent, of which \$1,223,259 was restricted to specific purposes.

NOTE 4 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2010 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2010	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap		Deferred Outflow of		Hedging	
2003A Bonds	\$ 7,976,000	Resources	\$ (366,878)	Derivatives	\$ (1,051,668)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Hedging derivative instruments held at June 30, 2010 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay Fixed Interest Rate Swap	Hedge of Changes in Cash Flows on the Student Housing Facilities Revenue Series 2003A Bonds	\$ 7,976,000	4/1/2004	10/1/2024	Pay 3.515% Receive 70% 1 Mo. LIBOR

The fair value of the pay-fixed interest rate swap was developed by the financial institution. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

Risks:

Interest Rate Risk: The NCCU Real Estate Foundation, Inc. (Foundation) is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because bonds are trading at a yield above 70% of USD-LIBOR-BBA Index, the swap has a negative fair value as of June 30, 2010.

Credit Risk: At June 30, 2010, the Foundation was not exposed to credit risk because the swap had a negative fair value. When the fair value of the swap is negative, the Foundation owes the counterparty and, therefore, it does not possess credit risk. However, should interest rates change and the fair value of the swap become positive, the Foundation would be exposed to credit risk. Wachovia's current long-term ratings are AA- by Fitch Ratings, Aa2 by Moody's Investor's Service, and AA by Standard and Poor's Corporation (S&P).

Basis Risk: The swap exposes the Foundation to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The Foundation receives 70% of 1-month USD-LIBOR-BBA Index. If the relationship of the Foundation's bonds trade to a percentage of LIBOR greater than 70%, the Foundation will experience an increase in debt service above the fixed rate on the swap. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.52% and the actual rate of 3.57% at June 30, 2010. As of June 30, 2010, the rate on the Foundation's bonds was .30% whereas 70% of LIBOR was .238%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTE 5 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 7,377,364	\$ 4,126,464	\$ 3,250,900
Accounts	903,802		903,802
Intergovernmental	5,994,773		5,994,773
Investment Earnings	6,362		6,362
Interest on Loans	61,011		61,011
Other	411,115		411,115
Total Current Receivables	<u>\$ 14,754,427</u>	<u>\$ 4,126,464</u>	<u>\$ 10,627,963</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 270,539</u>	<u>\$ 142,910</u>	<u>\$ 127,629</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 6,724,256</u>	<u>\$ 3,597,762</u>	<u>\$ 3,126,494</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 6,767,918	\$ 0	\$ 0	\$ 6,767,918
Art, Literature, and Artifacts	818,840	4,800		823,640
Construction in Progress	2,811,362	19,324,101		22,135,463
Total Capital Assets, Nondepreciable	10,398,120	19,328,901	0	29,727,021
Capital Assets, Depreciable:				
Buildings	252,106,749	393,161		252,499,910
Machinery and Equipment	24,534,640	3,820,202		28,354,842
General Infrastructure	14,399,277	566,900		14,966,177
Total Capital Assets, Depreciable	291,040,666	4,780,263	0	295,820,929
Less Accumulated Depreciation for:				
Buildings	62,137,942	4,639,543		66,777,485
Machinery and Equipment	9,657,706	1,942,029		11,599,735
General Infrastructure	8,446,511	606,851		9,053,362
Total Accumulated Depreciation	80,242,159	7,188,423	0	87,430,582
Total Capital Assets, Depreciable, Net	210,798,507	(2,408,160)	0	208,390,347
Capital Assets, Net	\$ 221,196,627	\$ 16,920,741	\$ 0	\$ 238,117,368

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 8,003,832
Accrued Payroll	3,085,252
Contract Retainage	503,643
Intergovernmental Payables	550,327
Other	4,310
Total Accounts Payable and Accrued Liabilities	\$ 12,147,364

NOTE 8 - SHORT-TERM DEBT – BOND ANTICIPATION NOTES

Short-term debt activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Draws	Repayments	Balance June 30, 2010
Bond Anticipation Notes	\$ 3,500,000	\$ 0	\$ 3,500,000	\$ 0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - LONG-TERM LIABILITIES

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

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	\$ 27,265,000	\$ 60,675,000	\$ 735,000	\$ 87,205,000	\$ 1,375,000
Add/Deduct Premium/Discount	(173,518)	(182,985)	(14,496)	(342,007)	
Deduct Deferred Charge on Refunding	(780,749)		(56,782)	(723,967)	
Total Revenue Bonds Payable	26,310,733	60,492,015	663,722	86,139,026	1,375,000
Notes Payable	1,290,008		438,835	851,173	222,943
Capital Leases Payable		566,900	62,986	503,914	56,238
Compensated Absences	6,421,222	5,036,772	5,012,581	6,445,413	541,415
Total Long-Term Liabilities	\$ 34,021,963	\$ 66,095,687	\$ 6,178,124	\$ 93,939,526	\$ 2,195,596

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010	See Table Below
Revenue Bonds Payable							
The University of North Carolina System Pool Revenue Bonds							
Student Housing	2004B	4.0% to 5.0%	04/01/2023	\$ 8,670,000	\$ 2,080,000	\$ 6,590,000	
Housing, Parking and Facilities Improvements	2009C	3.0% to 5.50%	10/01/2034	60,675,000		60,675,000	
Total University of North Carolina System Pool Revenue Bonds				69,345,000	2,080,000	67,265,000	
NCCU Real Estate Foundation, Inc. Housing System							
Student Housing Facilities Revenue Bonds	2003A	3.57% *	10/01/2034	21,475,000	1,535,000	19,940,000	
Total NCCU Real Estate Foundation, Inc. Housing System				21,475,000	1,535,000	19,940,000	(1)
Total Revenue Bonds Payable (Principal Only)				\$ 90,820,000	\$ 3,615,000	87,205,000	
Less: Unamortized Loss on Refunding						723,967	
Less: Unamortized Discount						342,007	
Total Revenue Bonds Payable						\$ 86,139,026	

* For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues			
			Net of Expenses	Principal	Interest	
(1)	Housing Revenues Real Estate	\$ 25,709,803	\$ 355,378	\$ 365,000	\$ 50,176	26.11%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Student Housing Facilities Revenue Bonds (Series 2003): In October of 2003, the North Carolina Capital Facilities Finance Agency issued revenue bonds totaling \$21,575,000 consisting of Series 2003A for \$21,475,000 and Series 2003B for \$100,000. Both series were issued to provide funds to the Real Estate Foundation (Foundation) for the purpose of financing the acquisition and construction of certain student housing facilities (the Project) at North Carolina Central University. The bond proceeds were used to fund a portion of construction period interest, to fund a debt service reserve fund for the 2003A bonds, and to pay certain costs of issuance of the bonds. The University entered into a loan agreement with the Foundation dated October 1, 2003, whereby the bond proceeds were loaned to the Foundation. Under the terms of the loan agreement, the Foundation agrees to provide funds for the principal and interest payments due on the bonds. The loan will be repaid over a 30-year period with variable interest rates set on a weekly basis, which was 0.30% for Series 2003A Bonds at June 30, 2010. The interest rate can be converted from time to time to another interest rate made at the option of the Foundation given certain established criteria. The 2003A Bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The payment of principal and interest on the Series 2003A bonds is secured by an irrevocable, direct-pay letter of credit issued by a financial institution, which originally expired on October 15, 2006. The letter of credit was subsequently extended until August 31, 2013, by request from the Foundation by delivering a notice of extension to the Trustee. The Foundation is entitled to draw up to \$20,165,987. A commitment fee was paid to the financial institution in the amount of \$109,098 for the letter of credit on the date the bonds were issued. The Foundation is required to pay a quarterly fee for the letter of credit of 1.5% per annum based on the unused portion of the letter of credit commitment. The Foundation paid credit facility fees in the amount of \$306,691 during the year ended June 30, 2010. The total amount drawn and paid on the letter of credit for the year ended June 30, 2010 was \$415,176.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Series 2003A have remarketing fees, an upfront charge paid to the remarketing agent to reset the interest rates on a weekly basis. At June 30, 2010, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2010, the Foundation paid remarketing fees of \$24,907.

Swap Payments and Associated Debt: As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2010, debt service requirements of the University's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows:

Fiscal Year Ending June 30	Interest Rate Swap					
	Principal	Variable-Rate Bond Interest	Letter of Credit	Remarketing	Interest Rate Swaps, Net	Total
2011	\$ 385,000	\$ 59,077	\$ 295,388	\$ 24,616	\$ 258,129	\$ 1,022,210
2012	405,000	58,033	290,165	24,180	254,283	1,031,661
2013	430,000	56,602	283,007	23,584	267,505	1,060,698
2014	455,000	55,252	276,263	23,022	220,534	1,030,071
2015	480,000	53,829	269,142	22,429	235,195	1,060,595
2016-2020	2,830,000	245,144	1,225,718	102,143	1,071,173	5,474,178
2021-2025	3,710,000	195,441	977,206	81,434	743,555	5,707,636
2026-2030	4,865,000	130,481	652,408	54,367		5,702,256
2031-2035	6,380,000	45,331	226,653	18,888		6,670,872
Total	<u>\$ 19,940,000</u>	<u>\$ 899,190</u>	<u>\$ 4,495,950</u>	<u>\$ 374,663</u>	<u>\$ 3,050,374</u>	<u>\$ 28,760,177</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2011	\$ 1,375,000	\$ 3,692,225	\$ 258,129	\$ 222,943	\$ 22,486
2012	2,195,000	3,633,122	254,283	229,724	15,705
2013	2,290,000	3,551,237	267,505	236,712	8,718
2014	2,400,000	3,466,981	220,534	161,794	1,826
2015	2,500,000	3,376,887	235,195		
2016-2020	14,390,000	15,299,455	1,071,173		
2021-2025	16,970,000	11,952,269	743,555		
2026-2030	19,520,000	8,117,016			
2031-2035	25,565,000	3,044,308			
Total Requirements	<u>\$ 87,205,000</u>	<u>\$ 56,133,500</u>	<u>\$ 3,050,374</u>	<u>\$ 851,173</u>	<u>\$ 48,735</u>

The effective interest rate on the variable rate Student Housing Facilities Revenue Bonds (including the effect of the swap) is calculated at 3.57% at June 30, 2010. Interest rates are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.

E. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2010, the outstanding balance of prior year defeased bonds was \$6,080,000.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Settlement Agreement - Final Program Review Determination	U.S. Department of Education	3.00%	02/15/2014	<u>\$ 1,138,228</u>	<u>\$ 287,055</u>	<u>\$ 851,173</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to general infrastructure are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 94,409
2012	94,409
2013	94,409
2014	94,409
2015	94,409
2016-2020	<u>188,815</u>
Total Minimum Lease Payments	660,860
Amount Representing Interest (7.90% Rate of Interest)	<u>156,946</u>
Present Value of Future Lease Payments	<u><u>\$ 503,914</u></u>

General infrastructure acquired under capital lease amounted to \$552,728 at June 30, 2010.

- B. Operating Lease Obligations** - The University entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 148,821.00
2012	118,497.00
2013	118,497.00
2014	118,497.00
2015	<u>9,875.00</u>
Total Minimum Lease Payments	<u><u>\$ 514,187.00</u></u>

Rental expense for all operating leases during the year was \$738,075.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	<u>\$ 43,730,562</u>	<u>\$ 0</u>	<u>\$ 11,301,740</u>	<u>\$ (526,620)</u>	<u>\$ 32,955,442</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 11,063,640	\$ 105,972	\$ 2,188,915	\$ 0	\$ 8,768,753
Dining	7,428,747	388,900	1,897,893		5,141,954
Student Union Services	1,396,175		354,718		1,041,457
Health, Physical Education, and Recreation Services	734,267	2,650	186,551		545,066
Bookstore	377,254				377,254
Parking	550,283	1,225			549,058
Athletic	1,541,848	696,670	440,227		404,951
Other	1,246,292	757,095			489,197
Sales and Services of Education and Related Activities	868,648	36,529			832,119
Total Sales and Services	<u>\$ 25,207,154</u>	<u>\$ 1,989,041</u>	<u>\$ 5,068,304</u>	<u>\$ 0</u>	<u>\$ 18,149,809</u>

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 60,059,506	\$ 4,675,365	\$ 5,978,011	\$ 0	\$ 0	\$ 0	\$ 70,712,882
Research	3,929,918	1,372,632	1,431,154				6,733,704
Public Service	1,202,864	29,257	447,561				1,679,682
Academic Support	10,038,449	3,334,050	1,767,485				15,139,984
Student Services	3,245,665	451,212	988,529				4,685,406
Institutional Support	16,441,076	2,254,018	3,150,628		100		21,845,822
Operations and Maintenance of Plant	4,992,080		6,041,708		4,243,091		15,276,879
Student Financial Aid	748,173	1,004		12,982,899			13,732,076
Auxiliary Enterprises	10,272,195	1,905,331	12,688,470		783,533		25,649,529
Depreciation						7,188,423	7,188,423
Total Operating Expenses	<u>\$ 110,929,926</u>	<u>\$ 14,022,869</u>	<u>\$ 32,493,546</u>	<u>\$ 12,982,899</u>	<u>\$ 5,026,724</u>	<u>\$ 7,188,423</u>	<u>\$ 182,644,387</u>

NOTE 13 - 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 \$89,935,186, of which \$65,416,340 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,335,363 and \$3,924,980, 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 \$2,335,363, \$2,075,446, and \$1,867,940, 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 \$89,935,186, of which \$20,773,438 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,420,903 and \$1,246,406, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$121,991 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$13,370. The voluntary contributions by employees amounted to \$424,053 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 \$952,934 for the year ended June 30, 2010.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$3,878,540, \$3,359,940, and \$3,254,158, 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.

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 \$448,187, \$426,139, and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$412,722, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 15 - RISK MANAGEMENT

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

NOTE 16 - COMMITMENTS 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 \$43,371,784 at June 30, 2010.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

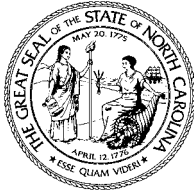
For the fiscal year ended June 30, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

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 Central University
Durham, North Carolina

We have audited the financial statements of North Carolina Central University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 29, 2011. Our report includes a reference to other auditors.

As discussed in Note 17 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 NCCU Real Estate Foundation, Inc. and the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the NCCU Real Estate Foundation, Inc. and the discretely presented component unit 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.

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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

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*.

We noted certain matters that we reported to management of the University in a separate letter dated March 15, 2011.

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

March 29, 2011

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

Telephone: 919/807-7500

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