



# STATE OF NORTH CAROLINA

**NORTH CAROLINA CENTRAL UNIVERSITY**

**DURHAM, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**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, 2011**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

**THOMAS W. ROSS, PRESIDENT**

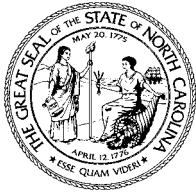
**BOARD OF TRUSTEES**

**MR. GLENN B. ADAMS, CHAIRMAN**

**ADMINISTRATIVE OFFICERS**

**DR. CHARLIE NELMS, CHANCELLOR**

**WENDELL DAVIS, VICE CHANCELLOR FOR ADMINISTRATION AND FINANCE**



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

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

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

---

**AUDITOR'S TRANSMITTAL**

---

The Honorable Beverly 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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

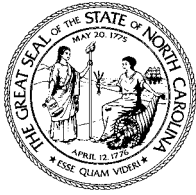
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets .....	10
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	12
A-3 Statement of Cash Flows .....	13
Component Unit Exhibits	
B-1 Statement of Financial Position .....	15
B-2 Statement of Activities .....	16
Notes to the Financial Statements .....	17
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	45
ORDERING INFORMATION .....	47



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

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

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

---

**INDEPENDENT AUDITOR'S REPORT**

---

Board of Trustees  
North Carolina 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, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NCCU Real Estate Foundation, Inc., which represent 6% and 1%, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

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

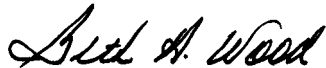
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Central University and its discretely presented component unit as of June 30, 2011, and the respective 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)

---

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012 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 9, 2012

## 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**

During the year, the University established the "Commission on Enhancing the Intellectual Climate" dedicated to increasing scholarly expectations and engagement for students, faculty, and staff. At the same time, steps were taken to raise and enforce the academic standards for all students by increasing the minimum grade point average requirement to matriculate from one term to the next. The University has been approved by the University of North Carolina (UNC) General Administration to plan a Ph.D. program in Integrated Biosciences that would start fall 2012.

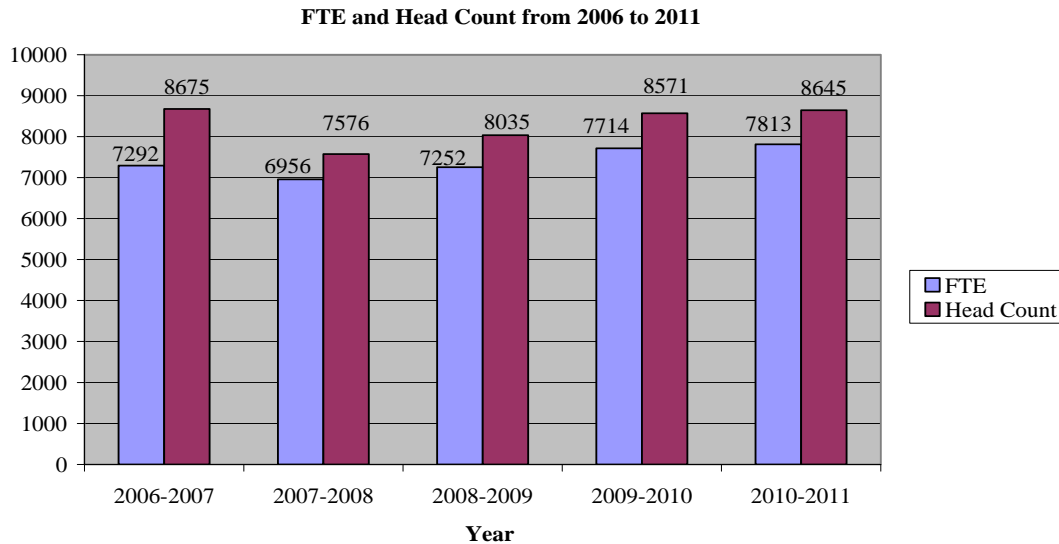
The University was once again ranked the number one public HBCU (Historically Black Colleges and Universities) and the School of Law was judged "Most Popular" by World News and Reports. Moreover, the *Campus Echo* (student-led newspaper) continued award-winning journalism and earned 16 awards from the National HBCU Student News Media Conference.

Adjusted State appropriations were \$83.1 million for fiscal year 2011, which was a 0.9% decrease over fiscal year 2010. The total University budget, including receipts, for fiscal year 2011 was \$136.7 million as compared to \$129.2 million in 2010, a 5.9% increase. The increase in the total University's budget was a result of receiving enrollment growth funding, increased tuition receipts, and additional funding for retirement and health insurance costs.

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 \$3.5 million in total fundraising, which includes pledges and other gifts of \$1.2 million.

During the past academic year, the University's total enrollment virtually stayed flat with a slight increase of seventy-four (74) students. The flat enrollment is a direct result of enforcing academic policies, beginning to increase the academic profile, and the economic conditions affecting affordability of education. Although enrollment was flat, the University has increased its applicant pool, which has yielded well-rounded and talented enrollees.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



### Financial Highlights

#### Condensed Statement of Net Assets

Assets	<u>2011</u>	<u>2010</u>
Current Assets	\$ 36,157,006	\$ 30,213,916
Capital Assets, Net	287,025,865	238,117,368
Other Assets	<u>34,051,598</u>	<u>64,084,189</u>
Total Assets	357,234,469	332,415,473
Liabilities		
Current Liabilities	27,150,113	16,809,817
Noncurrent Liabilities	<u>102,690,792</u>	<u>95,568,588</u>
Total Liabilities	129,840,905	112,378,405
Net Assets		
Invested in Capital Assets, Net of Related Debt	203,191,951	194,885,998
Restricted - Expendable	14,606,009	9,235,200
Restricted - Nonexpendable	12,889,183	13,047,872
Unrestricted	<u>(3,293,579)</u>	<u>2,867,998</u>
Total Net Assets	<u>\$ 227,393,564</u>	<u>\$ 220,037,068</u>

The Statement of Net Assets reports all assets and liabilities of the University; additionally, the statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer. This statement also reports the net assets, which is the difference between the total assets and total liabilities. The reader may use the net assets to gauge the financial position of the University as of June 30, 2011.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

As of June 30, 2011, the University's total assets were \$357.2 million as compared to \$332.4 million in the prior year, an increase of \$24.8 million. This increase is due to a combination of capital assets (construction in progress) having increased \$46.4 million for Chidley North (student housing) and the nursing building, borrowing of \$6.5 million for the Energy Conservation Project of which \$5.7 million remained unspent at year end, and a decrease of \$27 million in the Fall 2009 UNC System Pool Revenue Bond cash.

The University's liabilities totaled \$129.8 million at June 30, 2011 and \$112.4 million at June 30, 2010. The June 30, 2011 balance consisted primarily of the debt service on the UNC System Pool Revenue Bonds, Series 2009C (\$60.1 million) and student housing bonds (\$25.8 million). The increase in liabilities is \$17.5 million and is primarily attributable to the University having an increase in accounts payable to vendors for small renovation projects, contract retainage, and borrowing for the Energy Conservation Project.

As of June 30, 2011, the University had a deficit unrestricted net assets of \$3.3 million, which is a decrease of \$6.2 million from fiscal year 2010. This decrease is a result of the University having expended \$2.6 million of State appropriations for operating needs; however, those State appropriations were not fulfilled and used by the State of North Carolina to balance its budget. The remaining decrease (\$3.6 million) is due to the University having to use trust fund dollars to support parking deck construction, parking deck debt service payments, and furniture for the residence halls. Lastly, our food service operations experienced additional costs as a result of less students participating in the meal plan in the current and previous years.

The total current liabilities of \$27.2 million were covered 1.3 times by current assets of \$36.2 million, which indicates the University's ability to pay current liabilities as they become due. Total net assets are \$227.4 million, which is an increase of \$7.4 million from the prior year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2011	2010
Operating Revenues		
Student Tuition and Fees, Net	\$ 37,607,150	\$ 32,955,442
Contracts and Grants	10,484,941	8,099,123
Sales and Services, Net	18,292,163	18,149,809
Other Operating Revenues	1,193,754	651,868
Total Operating Revenues	67,578,008	59,856,242
Operating Expenses		
Salaries and Benefits	117,926,798	110,929,926
Supplies and Materials	15,607,380	14,022,869
Services	38,778,480	32,493,546
Scholarships and Fellowships	16,542,921	12,982,899
Utilities	5,032,691	5,026,724
Depreciation	7,408,520	7,188,423
Operating Expenses	201,296,790	182,644,387
Operating Loss	(133,718,782)	(122,788,145)
Nonoperating Revenues and Expenses		
State Appropriations	83,148,256	83,871,676
State Aid - Federal Recovery Funds	5,340,833	4,678,200
Noncapital Grants	38,649,249	33,624,349
Noncapital Gifts	166,914	147,961
Investment Income	3,323,954	1,635,025
Other Nonoperating Expenses	(2,944,658)	(1,042,055)
Income (Loss) Before Other Revenues	(6,034,234)	127,011
Capital Grants	13,390,730	2,265,566
Capital Gifts	—	4,800
Total Other Revenues	13,390,730	2,270,366
Increase in Net Assets	7,356,496	2,397,377
Net Assets- Beginning of the Year	220,037,068	217,639,691
Net Assets - End of Year	\$ 227,393,564	\$ 220,037,068

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 consist of salaries and benefits, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

Operating revenues of \$67.6 million at June 30, 2011, increased by \$7.7 million when compared to 2010. The increase was due to noticeable changes in student tuition and fees and contracts and grant revenues. Student tuition and fees increased \$4.7 million, which is the result of raising tuition by 11% and fees by 4.4%. Contracts and grants increased \$2.4 million as a result of increased funding for research grants such as National Science Foundation (ARRA), National Aeronautics and Space Administration (CADRE), and the National Institutes of Health (Cardiovascular Health).

Operating expenses increased by \$18.7 million when compared to 2010. Salaries and benefits for University employees, services, and scholarships and fellowships were the major components of this change. Salaries and benefits increased \$7 million due to increases in retirement and health insurance rates and the use of adjuncts to support unmet teaching loads. Services increased \$6.3 million due to focused attention to small campus renovation projects, food service, athletic, and health services expenditures. Scholarships and fellowships increased \$3.6 million due to an increase of federally funded student financial aid for Pell, SEOG (Supplemental Educational Opportunity Grant), and other grants as discounted.

Overall, the University sustained a total operating loss of \$133.7 million in the current fiscal year, which is \$10.9 million more than the loss in fiscal year 2010. 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 2011, State appropriations were \$83.1 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, noncapital grants and gifts, investment income/expenses, and capital-related interest primarily represent the nonoperating revenues and expenses.

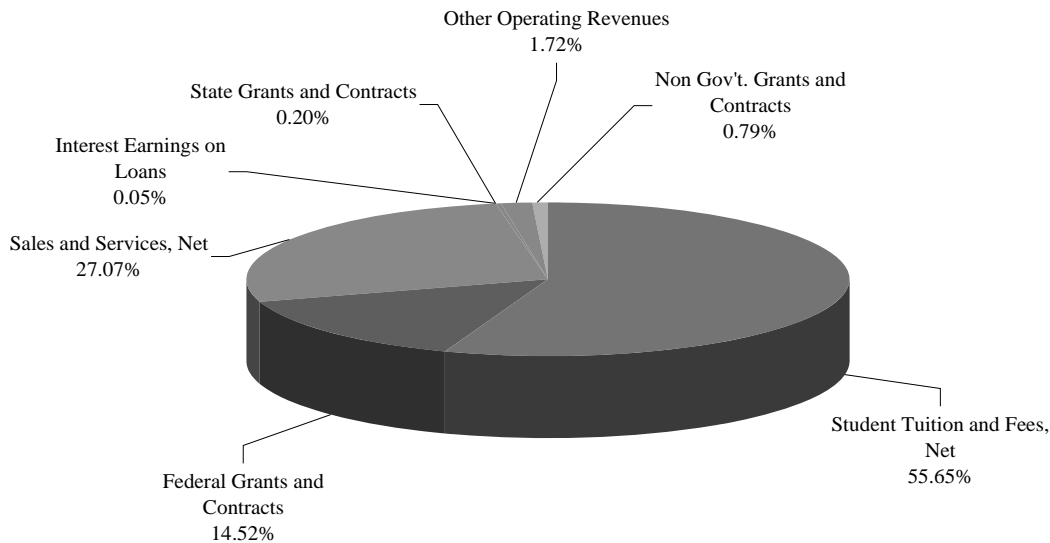
Of the nonoperating revenues (\$131.2 million), there were noticeable changes in the noncapital grants. Noncapital grants increased by \$5 million due to the increase in Pell, SEOG, and Title III funding.

Additionally, capital grants significantly increased by \$11.1 million over fiscal year 2010. This increase was due to having completed the majority of construction on the nursing building and receiving State bond funds to support the expenditures.

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 \$5.3 million, which was recorded as nonoperating revenue.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Operating Revenues by Source**



### Capital Assets and Debt Administration

The construction in progress balance as of June 30, 2011 was \$50.5 million, which included two major projects: new student housing (\$25.2 million) and the nursing building (\$18.1 million). Outstanding commitments for ongoing construction projects were \$15.3 million as of June 30, 2011. During the fiscal year, the University completed the construction of a parking deck, which added \$17 million to buildings. For additional information concerning capital assets, see Notes 1(H), 5, and 15(A) in the Notes to the Financial Statements.

As of June 30, 2011, the University had \$91.4 million in outstanding bonds and notes payable of which \$60.1 million was for outstanding bonds issued by the UNC System Pool Revenue Bonds, Series 2009C to complete the construction of student housing and a parking deck and renovations to the Walker Athletic Complex. Additionally, the University executed a bank note (\$6.5 million) to secure an Energy Performance Contract.

In August 2011, Moody's Investor Service downgraded the University from A2 to A3, but with a stable outlook. The downgrade has the potential to affect the cost of capital for any future borrowing that the University undertakes.

For additional information concerning debt administration, see Note 7 in the Notes to the Financial Statements.

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

---

### **Economic Outlook**

Given the continued economic conditions of the State and nation, the University recognizes the sustained impact that these conditions will have upon the campus community. Budgetarily, the University will see reductions in its appropriations to adjust for expected decreases in the State's revenues. For 2011-2012, the University's budget was reduced by 14% (\$13 million) in 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, the University has continued to see an increased applicant pool. However, total enrollment reached 8,349 for fall 2011, which is a 3.4% decline from last fall. The decline is directly attributable to the University's efforts to raise the academic standards. The fall 2011 retention rate was 68% as a result of the efforts and resources invested into the repurposed University to focus intensely on student success and competitiveness.

Lastly, the 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, 2011**

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

**ASSETS**

Current Assets:

Restricted Cash and Cash Equivalents (Note 2)	\$ 19,233,757
Restricted Short-Term Investments (Note 2)	1,039,846
Receivables, Net (Note 4)	13,679,699
Due from Primary Government	40,097
Due from University Component Units	1,385,646
Inventories	693,809
Notes Receivable, Net (Note 4)	84,152
	<hr/>
Total Current Assets	36,157,006
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	12,152,002
Endowment Investments (Note 2)	18,242,418
Deferred Charges	550,373
Deferred Outflow of Resources	861,724
Notes Receivable, Net (Note 4)	2,245,081
Capital Assets - Nondepreciable (Note 5)	58,573,133
Capital Assets - Depreciable, Net (Note 5)	228,452,732
	<hr/>
Total Noncurrent Assets	321,077,463
	<hr/>
Total Assets	357,234,469
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	19,787,819
Due to Primary Government	19,314
Funds Held for Others	1,385,646
Unearned Revenue	926,484
Interest Payable	1,129,795
Long-Term Liabilities - Current Portion (Note 7)	3,901,055
	<hr/>
Total Current Liabilities	27,150,113
	<hr/>

Noncurrent Liabilities:

Deposits Payable	650
U. S. Government Grants Refundable	2,338,928
Hedging Derivative Liability (Note 8)	861,724
Long-Term Liabilities (Note 7)	99,489,490
	<hr/>
Total Noncurrent Liabilities	102,690,792
	<hr/>
Total Liabilities	129,840,905
	<hr/>

**North Carolina Central University**  
**Statement of Net Assets**  
**June 30, 2011**

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	203,191,951
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,439,793
Endowed Professorships	8,193,855
Loans	255,535
Expendable:	
Scholarships and Fellowships	2,697,482
Research	1,394,850
Endowed Professorships	4,397,150
Departmental Uses	1,017,753
Capital Projects	2,896,194
Debt Service	2,193,008
Other	9,572
Unrestricted	<u>(3,293,579)</u>
Total Net Assets	<u>\$ 227,393,564</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, 2011***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 37,607,150
Federal Grants and Contracts	9,815,046
State and Local Grants and Contracts	133,048
Nongovernmental Grants and Contracts	536,847
Sales and Services, Net (Note 10)	18,292,163
Interest Earnings on Loans	32,330
Other Operating Revenues	1,161,424
	<hr/>
Total Operating Revenues	67,578,008
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	117,926,798
Supplies and Materials	15,607,380
Services	38,778,480
Scholarships and Fellowships	16,542,921
Utilities	5,032,691
Depreciation	7,408,520
	<hr/>
Total Operating Expenses	201,296,790
	<hr/>
Operating Loss	(133,718,782)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	83,148,256
State Aid - Federal Recovery Funds	5,340,833
Noncapital Grants - Student Financial Aid	24,175,124
Other Noncapital Grants	14,474,125
Noncapital Gifts	166,914
Investment Income (Net of Investment Expense of \$94,596)	3,323,954
Interest and Fees on Debt	(3,475,616)
Other Nonoperating Revenues	530,958
	<hr/>
Net Nonoperating Revenues	127,684,548
	<hr/>
Loss Before Other Revenues	(6,034,234)
	<hr/>
Capital Grants	13,390,730
	<hr/>
Increase in Net Assets	7,356,496

**NET ASSETS**

Net Assets - July 1, 2010	220,037,068
	<hr/>
Net Assets - June 30, 2011	\$ 227,393,564
	<hr/> <hr/>

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, 2011**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 68,444,354
Payments to Employees and Fringe Benefits	(118,392,211)
Payments to Vendors and Suppliers	(55,160,628)
Payments for Scholarships and Fellowships	(16,542,921)
Loans Issued	(270,539)
Collection of Loans	121,464
Interest Earned on Loans	32,661
Other Receipts	808,695
	<hr/>
Net Cash Used by Operating Activities	(120,959,125)
	<hr/>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	83,148,256
State Aid - Federal Recovery Funds	5,340,833
Noncapital Grants - Student Financial Aid	24,175,124
Noncapital Grants	11,463,224
Noncapital Gifts	166,914
William D. Ford Direct Lending Receipts	78,538,501
William D. Ford Direct Lending Disbursements	(78,538,501)
Related Activity Agency Receipts	582,069
Related Activity Agency Disbursements	(947,921)
Other Payments	(320,215)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	123,608,284
	<hr/>

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

Proceeds from Capital Debt	6,532,959
Capital Grants	13,966,885
Acquisition and Construction of Capital Assets	(46,049,654)
Principal Paid on Capital Debt and Leases	(2,603,083)
Interest and Fees Paid on Capital Debt and Leases	(2,376,862)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(30,529,755)
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	6,098,121
Investment Income	392,415
Purchase of Investments and Related Fees	(5,693,855)
	<hr/>
Net Cash Provided by Investing Activities	796,681
	<hr/>
Net Decrease in Cash and Cash Equivalents	(27,083,915)
Cash and Cash Equivalents - July 1, 2010	58,469,674
	<hr/>
Cash and Cash Equivalents - June 30, 2011	\$ 31,385,759
	<hr/> <hr/>

**North Carolina Central University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2011**

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

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

Operating Loss	\$	(133,718,782)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		7,408,520
Allowances and Write-Offs		682,438
Changes in Assets and Liabilities:		
Receivables (Net)		231,632
Inventories		(133,126)
Notes Receivable (Net)		(36,420)
Accounts Payable and Accrued Liabilities		3,426,313
Due to Primary Government		(129,197)
Due to Federal Agencies		17,060
US Government Grants Refundable		(57,531)
Unearned Revenue		670,951
Compensated Absences		678,767
Deposits Payable		250
		<hr/>
Net Cash Used by Operating Activities	\$	<u>(120,959,125)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Restricted Cash and Cash Equivalents	\$	19,233,757
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		12,152,002
		<hr/>
Total Cash and Cash Equivalents - June 30, 2011	\$	<u>31,385,759</u>

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

Assets Acquired through the Assumption of a Liability	\$	9,540,415
Assets Acquired through the Assumption of a Capital Lease		5,622,271
Change in Fair Value of Investments		2,466,988
Loss on Disposal of Capital Assets		(397,061)

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, 2011***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$ 1,812,340
Accounts Receivable, Related Party	83,575
Contributions Receivable, Net	321,138
Investments	10,958,263
Cash Surrender Value of Life Insurance	183,458
Property and Equipment, Net	195,734
	<hr/>
Total Assets	13,554,508
	<hr/>

**LIABILITIES**

Accounts Payable and Accrued Expenses	1,619
Accounts Payable, Related Party	5,955
Capital Lease Obligation	148,651
Funds Held on Behalf of Others	1,659,565
	<hr/>
Total Liabilities	1,815,790
	<hr/>

**NET ASSETS**

Unrestricted	1,868,993
Temporarily Restricted	1,866,126
Permanently Restricted	8,003,599
	<hr/>
Total Net Assets	\$ 11,738,718
	<hr/> <hr/>

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

**North Carolina Central University Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

**Exhibit B-2**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES</b>				
Revenues, Gains, and Other Support:				
Contributions	\$ 81,388	\$ 2,082,235	\$ 951,076	\$ 3,114,699
Interest and Dividends	66,599	56,875	5,753	129,227
Realized and Unrealized Gains on Investments	742,648	852,917	64,605	1,660,170
Other Income	295,033	217,032		512,065
Net Assets Released from Donor Restrictions	<u>2,616,239</u>	<u>(2,616,239)</u>		
Total Revenues, Gains, and Other Support	<u>3,801,907</u>	<u>592,820</u>	<u>1,021,434</u>	<u>5,416,161</u>
<b>EXPENSES</b>				
Program Services:				
Scholarships and Grants	422,068			422,068
University Support	1,897,908			1,897,908
Management and General	347,946			347,946
Bad Debt Losses (Recoveries)		<u>182,749</u>	<u>622,809</u>	<u>805,558</u>
Total Expenses and Losses	<u>2,667,922</u>	<u>182,749</u>	<u>622,809</u>	<u>3,473,480</u>
Changes in Net Assets Before Asset Transfers	<u>1,133,985</u>	<u>410,071</u>	<u>398,625</u>	<u>1,942,681</u>
Transfer from North Carolina Central University for Capital Lease Payment	<u>55,985</u>			<u>55,985</u>
Changes in Net Assets	1,189,970	410,071	398,625	1,998,666
<b>NET ASSETS</b>				
Net Assets - July 1, 2010	<u>679,023</u>	<u>1,456,055</u>	<u>7,604,974</u>	<u>9,740,052</u>
Net Assets - June 30, 2011	<u>\$ 1,868,993</u>	<u>\$ 1,866,126</u>	<u>\$ 8,003,599</u>	<u>\$ 11,738,718</u>

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

**NORTH CAROLINA CENTRAL UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

The Real Estate Foundation is governed by a five 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 Street, Durham, North Carolina 27707, or by calling 919-530-7432.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

The NCCU Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The NCCU Foundation board consists of 20 members. Although the University does not control the timing or amount of receipts from the NCCU Foundation, the majority of resources, or incomes 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, 2011, the NCCU Foundation distributed \$1,897,908 to the University for both restricted and unrestricted purposes. The University remitted \$165,308 in payroll deducted employee contributions and \$189,332 in other reimbursements to the NCCU Foundation. Complete financial statements for the Foundation can be obtained from the University's Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707 or by calling 919-530-7432.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

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

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

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

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

Bonds payable are reported net of unamortized discounts and deferred losses on refunds. The University amortizes bond 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 method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

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

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

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

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$29,742,053 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2011 was \$1,900. The carrying amount of the University's deposits not with the State Treasurer was \$1,641,806 and the bank balance was \$2,879,679. 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, 2011, the University's uninsured and uncollateralized bank balance was \$1,476,800.

### **B. Investments**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

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

Investments of the University's component 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 on investment. This investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

Investments are subject to the following risks.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table presents the fair value of investments by type at June 30, 2011 for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

<b>Investment Type</b>	<u>Fair Value</u>
UNC Investment Fund	<u>\$ 15,128,145</u>

**UNC Investment Fund, LLC** - At June 30, 2011, the University's investments include \$15,128,145 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 the audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, North Carolina 27517.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011 for the University's non-pooled investments.

### *Non-Pooled Investments*

<b>Investment Type</b>	<u>Investment Maturities (in Years)</u>	
	<u>Fair Value</u>	<u>Less Than 1</u>
Debt Securities		
Money Market Mutual Funds	\$ 124,174	\$ 124,174
Other Securities		
Domestic Stocks	<u>4,029,945</u>	
Total Non-Pooled Investments	<u>\$ 4,154,119</u>	

At June 30, 2011, the University's non-pooled investments included \$124,174 in unrated Money Market Mutual Funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2011:

	Fair Value
<b>Investment Type</b>	
Debt Securities	
Money Market Mutual Funds	\$ 124,174
Other Securities	
UNC Investment Fund	15,128,145
Domestic Stocks	4,029,945
Total Investments	\$ 19,282,264

**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
<b>Investment Type</b>	
Cash and Cash Equivalents	\$ 1,129,895
Equity Securities	5,304,459
Debt Securities	1,424,722
U.S. Government Obligations	1,445,519
Mutual Funds	1,306,437
Exchange Traded Funds	347,231
Total Investments	\$ 10,958,263

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2011 is as follows:

Cash on Hand	\$	1,900
Amount of Deposits with Private Financial Institutions		1,641,806
Deposits in the Short-Term Investment Fund		29,742,053
Investments in the UNC Investment Fund		15,128,145
Non-Pooled Investments		4,154,119
Total Deposits and Investments	\$	<u>50,668,023</u>
Deposits		
Current:		
Restricted Cash and Cash Equivalents	\$	19,233,757
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>12,152,002</u>
Total Deposits		<u>31,385,759</u>
Investments		
Current:		
Restricted Short-Term Investments		1,039,846
Noncurrent:		
Endowment Investments		<u>18,242,418</u>
Total Investments		<u>19,282,264</u>
Total Deposits and Investments	\$	<u>50,668,023</u>

### NOTE 3 - ENDOWMENT INVESTMENTS

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, endowment net assets of \$5,622,661 were available to be spent, of which \$3,352,560 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2011 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 7,316,973	\$ 3,847,592	\$ 3,469,381
Accounts	1,787,909		1,787,909
Intergovernmental	8,361,770		8,361,770
Investment Earnings	2,940		2,940
Interest on Loans	57,699		57,699
	<u>17,527,291</u>	<u>3,847,592</u>	<u>13,679,699</u>
<b>Total Current Receivables</b>	<u>\$ 17,527,291</u>	<u>\$ 3,847,592</u>	<u>\$ 13,679,699</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	<u>\$ 246,960</u>	<u>\$ 162,808</u>	<u>\$ 84,152</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 6,761,831</u>	<u>\$ 4,516,750</u>	<u>\$ 2,245,081</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 6,767,918	\$ 500,844	\$ 0	\$ 7,268,762
Art, Literature, and Artifacts	823,640	4,000		827,640
Construction in Progress	22,135,463	46,414,204	18,072,936	50,476,731
<b>Total Capital Assets, Nondepreciable</b>	<b>29,727,021</b>	<b>46,919,048</b>	<b>18,072,936</b>	<b>58,573,133</b>
Capital Assets, Depreciable:				
Buildings	252,499,910	18,072,936	446,513	270,126,333
Machinery and Equipment	28,354,842	9,795,030	2,690,225	35,459,647
General Infrastructure	14,966,177		62,641	14,903,536
<b>Total Capital Assets, Depreciable</b>	<b>295,820,929</b>	<b>27,867,966</b>	<b>3,199,379</b>	<b>320,489,516</b>
Less Accumulated Depreciation for:				
Buildings	66,777,485	4,732,591	388,041	71,122,035
Machinery and Equipment	11,599,735	2,069,987	2,351,636	11,318,086
General Infrastructure	9,053,362	605,942	62,641	9,596,663
<b>Total Accumulated Depreciation</b>	<b>87,430,582</b>	<b>7,408,520</b>	<b>2,802,318</b>	<b>92,036,784</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>208,390,347</b>	<b>20,459,446</b>	<b>397,061</b>	<b>228,452,732</b>
<b>Capital Assets, Net</b>	<b>\$ 238,117,368</b>	<b>\$ 67,378,494</b>	<b>\$ 18,469,997</b>	<b>\$ 287,025,865</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011 were as follows:

	Amount
Accounts Payable	\$ 15,687,594
Accrued Payroll	1,666,380
Contract Retainage	1,861,778
Intergovernmental Payables	567,387
Other	4,680
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 19,787,819</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	\$ 87,205,000	\$ 0	\$ 1,375,000	\$ 85,830,000	\$ 2,195,000
Deduct Discount	(342,007)		(14,496)	(327,511)	
Deduct Deferred Charge on Refunding	(723,967)		(56,782)	(667,185)	
<b>Total Revenue Bonds Payable</b>	<b>86,139,026</b>	<b>0</b>	<b>1,303,722</b>	<b>84,835,304</b>	<b>2,195,000</b>
Notes Payable	851,173	6,532,959	851,173	6,532,959	
Capital Leases Payable	503,914	5,622,271	1,228,083	4,898,102	1,107,624
Compensated Absences	6,445,413	4,665,730	3,986,963	7,124,180	598,431
<b>Total Long-Term Liabilities</b>	<b>\$ 93,939,526</b>	<b>\$ 16,820,960</b>	<b>\$ 7,369,941</b>	<b>\$ 103,390,545</b>	<b>\$ 3,901,055</b>

Additional information regarding capital lease obligations is included in Note 9.

#### 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, 2011	Principal Outstanding June 30, 2011	See Table Below
Revenue Bonds Payable							
The University of North Carolina System Pool Revenue Bonds							
Housing System Revenue Bonds	2004B	4.0% to 5.0%	04/01/2023	\$ 8,670,000	\$ 2,470,000	\$ 6,200,000	
Housing System, Parking Facility	2009C	4.0% to 5.5%	10/01/2034	60,675,000	600,000	60,075,000	
Total of The University of North Carolina System Pool Revenue Bonds				69,345,000	3,070,000	66,275,000	
NCCU Real Estate Foundation, Inc.							
Real Estate Foundation Housing System	2003A	3.45%*	10/01/2034	21,475,000	1,920,000	19,555,000	(1)
Total Revenue Bonds Payable (principal only)				\$ 90,820,000	\$ 4,990,000	85,830,000	
Less: Unamortized Discount						(327,511)	
Unamortized Loss on Refunding						(667,185)	
Total Revenue Bonds Payable						<u>\$ 84,835,304</u>	

\* For variable rate debt with interest rate swaps, the synthetic fixed rate is 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	\$ 23,489,527	\$ 517,856	\$ 385,000 \$ 50,485	24.51%

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

With regards to the following demand bond, the University has not entered into legal agreements, which would convert the demand bond 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 that have a final maturity date of October 1, 2034 and October 1, 2005, respectively. 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 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 0.08% for Series 2003A bonds at June 30, 2011. 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 \$19,776,623. 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 1.2% per annum based on the unused portion of the letter of credit commitment. The Foundation paid credit facility fees in the amount of \$252,695 during the year ended June 30, 2011. The total amount drawn and paid on the letter of credit for the year ended June 30, 2011 was \$435,485.

## 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 bonds have remarketing fees, an upfront charge paid to the remarketing agent to reset the interest rates on a weekly basis. At June 30, 2011, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2011, the Foundation paid remarketing fees of \$24,424.

**Swap Payments and Associated Debt:** As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2011, 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					
	Variable-Rate Bond			Remarketing	Interest Rate Swaps, Net	Total
	Principal	Interest	Letter of Credit			
2012	\$ 405,000	\$ 15,475	\$ 232,132	\$ 24,180	\$ 262,509	\$ 939,296
2013	430,000	15,094	226,406	23,584	276,158	971,242
2014	455,000	14,734	221,010	23,022	227,667	941,433
2015	480,000	14,354	215,314	22,429	242,803	974,900
2016	505,000	13,993	209,887	21,863	236,682	987,425
2017-2021	2,990,000	62,969	944,536	98,389	1,065,183	5,161,077
2022-2026	3,915,000	49,021	735,309	76,595	571,563	5,347,488
2027-2031	5,135,000	30,733	460,998	48,021		5,674,752
2032-2035	5,240,000	7,657	114,858	11,964		5,374,479
Total	<u>\$ 19,555,000</u>	<u>\$ 224,030</u>	<u>\$ 3,360,450</u>	<u>\$ 350,047</u>	<u>\$ 2,882,565</u>	<u>\$ 26,372,092</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, 2011 are as follows:

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2012	\$ 2,195,000	\$ 3,276,219	\$ 262,509	\$	\$ 314,235
2013	2,290,000	3,203,137	276,158	274,460	314,235
2014	2,400,000	3,127,178	227,667	293,477	301,034
2015	2,500,000	3,045,842	242,803	313,316	286,918
2016	2,615,000	2,959,280	236,682	334,007	271,847
2017-2021	15,095,000	13,246,475	1,065,183	2,012,543	1,096,821
2022-2026	17,155,000	10,093,896	571,563	2,677,347	551,452
2027-2031	20,585,000	6,522,311		627,809	30,198
2032-2035	20,995,000	1,800,245			
<b>Total Requirements</b>	<b>\$ 85,830,000</b>	<b>\$ 47,274,583</b>	<b>\$ 2,882,565</b>	<b>\$ 6,532,959</b>	<b>\$ 3,166,740</b>

The effective interest rate on the variable rate Student Housing Facilities Revenue Bonds (including the effect of the swap) is calculated at 3.45% at June 30, 2011. Interest rates are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 8 Derivative Investments.

**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, 2011, the outstanding balance of prior year defeased bonds was \$5,755,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Energy Performance Contract	FifthThird Bank	4.81%	12/09/2026	\$ 6,532,959	\$ 0	\$ 6,532,959

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2011 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2011	
		Classification	Increase	Classification	Liability
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap		Deferred Outflow of Resources		Hedging Derivatives	
2003A Bonds	\$ 7,822,000		<u>\$ 189,944</u>		<u>\$ (861,724)</u>

Hedging derivative instruments held at June 30, 2011 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				Pay 3.515%
	Housing Facilities Revenue Series 2003A Bonds	<u>\$ 7,822,000</u>	4/1/2004	10/1/2024	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.

#### *Hedging Derivative Risks:*

**Credit Risk:** At June 30, 2011, 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 Aa2 by Moody's Investor's Service and AA by Standard and Poor's Corporation (S&P).

**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, 2011.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 3.45% at June 30, 2011. As of June 30, 2011, the rate on the Foundation's bonds was 0.08% whereas 70% of LIBOR was 0.132%.

*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 until it matures on October 1, 2034.

### NOTE 9 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to general infrastructure and machinery and equipment 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, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 1,322,720
2013	1,322,720
2014	1,322,720
2015	1,322,720
2016	94,409
2017-2021	<u>94,408</u>
Total Minimum Lease Payments	5,479,697
Amount Representing Interest (4.004% to 7.90% Rate of Interest)	<u>581,595</u>
Present Value of Future Lease Payments	<u><u>\$ 4,898,102</u></u>

General infrastructure acquired under capital lease amounted to \$566,900 at June 30, 2011. Machinery and equipment acquired under capital lease amounted to \$5,622,271 at June 30, 2011. Depreciation for the capital assets associated with capital leases is included in depreciation expense.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**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, 2011:

Fiscal Year	Amount
2012	\$ 130,898
2013	118,497
2014	118,497
2015	9,875
Total Minimum Lease Payments	\$ 377,767

Rental expense for all operating leases during the year was \$682,547.

### NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 50,781,076	\$ 0	\$ 13,452,798	\$ (278,872)	\$ 37,607,150
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 10,261,366	\$ 132,902	\$ 2,135,794	\$ 0	\$ 7,992,670
Dining	6,984,490	220,275	1,817,214		4,947,001
Student Union Services	1,351,130		361,011		990,119
Health, Physical Education, and Recreation Services	956,864		189,860		767,004
Bookstore	355,091				355,091
Parking	928,601	600			928,001
Athletic	1,557,821		402,808		1,155,013
Other	1,521,785	1,268,445			253,340
Sales and Services of Education and Related Activities	910,349	6,425			903,924
<b>Total Sales and Services</b>	\$ 24,827,497	\$ 1,628,647	\$ 4,906,687	\$ 0	\$ 18,292,163

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 63,173,648	\$ 5,763,963	\$ 4,992,274	\$ 0	\$ 450,090	\$ 0	\$ 74,379,975
Research	4,378,803	1,701,646	1,910,152				7,990,601
Public Service	1,277,184	84,813	330,500				1,692,497
Academic Support	10,491,130	3,381,088	1,626,255				15,498,473
Student Services	3,437,912	331,033	1,307,145				5,076,090
Institutional Support	17,151,996	2,306,953	4,316,824		416		23,776,189
Operations and Maintenance of Plant	5,169,749		9,627,073		3,708,405		18,505,227
Student Financial Aid	1,468,753		4,500	16,542,921			18,016,174
Auxiliary Enterprises	11,377,623	2,037,884	14,663,757		873,780		28,953,044
Depreciation						7,408,520	7,408,520
Total Operating Expenses	<u>\$ 117,926,798</u>	<u>\$ 15,607,380</u>	<u>\$ 38,778,480</u>	<u>\$ 16,542,921</u>	<u>\$ 5,032,691</u>	<u>\$ 7,408,520</u>	<u>\$ 201,296,790</u>

### NOTE 12 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$93,868,672, of which \$56,029,005 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

contributions for pension benefits for the year were \$2,762,230 and \$3,361,740, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$2,762,230, \$2,335,363, and \$2,075,446, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the 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, 2011, 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 \$93,868,672, of which \$21,680,899 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,482,973 and \$1,300,854, 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 \$118,556 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2011, were \$12,897. The voluntary contributions by employees amounted to \$372,001 for the year ended June 30, 2011.

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 \$921,451 for the year ended June 30, 2011.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year, the University contributed 4.9% 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, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$3,807,785, \$3,878,540, and \$3,359,940, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

<http://www.osc.nc.gov/> and clicking on “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, 2011, the University made a statutory contribution of 0.52% 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, 2010, and 2009, were 0.52% and 0.52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$404,092, \$448,187, and \$426,139, 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 14 - RISK MANAGEMENT

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund extended coverage, vandalism, and "all risk" for certain buildings and contents. In addition, the University also purchased broad form coverage for all State general funded buildings as well as their contents.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

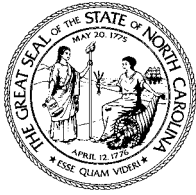
Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

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

### NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$15,286,669 at June 30, 2011.
- 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.





**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, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 9, 2012. Our report includes a reference to 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. 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 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.

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.

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

---

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*.

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 9, 2012

## **ORDERING INFORMATION**

---

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647