

STATE OF NORTH CAROLINA

NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS

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 SCHOOL OF SCIENCE AND MATHEMATICS

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

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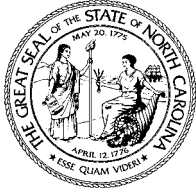
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina School of Science and Mathematics

We have completed a financial statement audit of the North Carolina School of Science and Mathematics 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*.

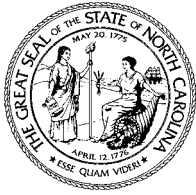
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina School of Science and Mathematics
Durham, North Carolina

We have audited the accompanying financial statements of the North Carolina School of Science and Mathematics, 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 School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the North Carolina School of Science and Mathematics Foundation, Inc., the School's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

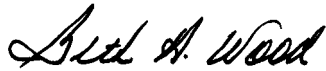
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Carolina School of Science and Mathematics 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 May 14, 2012 on our consideration of the School'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

May 14, 2012

NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The North Carolina School of Science and Mathematics (School) provides this overview and Management's Discussion and Analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2011, and includes comparative data for the year ended June 30, 2010. This discussion describes important trends and events that have impacted the fiscal health of the School and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the School's management along with the financial statements and the notes to the financial statements thereto. The report should be read and considered in its entirety.

Using the Annual Report

This annual report consists of a series of financial statements, notes to the financial statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis for the School as a whole. These standards were used in the preparation of this document. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are discussed in later sections of this discussion and analysis.

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

The Notes to the Financial Statements should be read in conjunction with the financial statements. The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, accounts receivable, capital assets, accounts payable, long-term liabilities, lease obligations, expenses, required information on pension plans, other post employment benefits and insurance against losses, commitments and contingencies. Overall, these disclosures provide

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Reporting Entity

The financial statements report information about the School as a whole using accounting methods similar to those used in the private-sector. The financial reporting entity for the financial statements is comprised of the School and two component units. The NCSSM Student and Constituent Support Services, Inc., a blended component unit, is a legally separate not-for-profit corporation and is reported as if it were part of the School. The North Carolina School of Science and Mathematics Foundation, Inc., 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 School. The component units are subject to independent outside audits due to organizational requirements or source of funding.

Financial Highlights

The School's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2011. However, the combined net assets for the School decreased \$780,401, which is a decrease of 1.71%.

Summary of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the School as of the end of the fiscal year. The statement is a point-in-time statement presenting a fiscal snapshot of the School. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the School. They are also able to determine how much the School owes to vendors and others and how much is held for future use by the School. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the School.

Net assets are divided into categories to show the availability to meet the School's obligations. The first category, invested in capital assets, provides the School's equity in property, plant, and equipment. The next category is restricted net assets and includes resources which the School is obligated to spend on capital projects. The final category is unrestricted net assets. Unrestricted net assets are available to the School for any lawful purpose. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the School's unrestricted net assets have been designated for various programs and initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

North Carolina School of Science and Mathematics Condensed Statement of Net Assets

	2011	2010 (as restated)	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	\$ 522,556.13	\$ 1,311,552.26	\$ (788,996.13)	-60.16%
Noncurrent Assets:				
Restricted Cash	298,891.80	552,187.01	(253,295.21)	-45.87%
Capital Assets	<u>46,354,831.85</u>	<u>46,573,161.74</u>	<u>(218,329.89)</u>	-0.47%
Total Assets	47,176,279.78	48,436,901.01	(1,260,621.23)	-2.60%
Liabilities:				
Current Liabilities	811,860.74	1,113,941.74	(302,081.00)	-27.12%
Noncurrent Liabilities	<u>1,444,614.00</u>	<u>1,622,753.00</u>	<u>(178,139.00)</u>	-10.98%
Total Liabilities	2,256,474.74	2,736,694.74	(480,220.00)	-17.55%
Net Assets:				
Invested in Capital Assets	46,354,831.85	46,573,161.74	(218,329.89)	-0.47%
Restricted:				
Expendable:				
Capital Projects	298,891.80	552,187.01	(253,295.21)	-45.87%
Unrestricted	<u>(1,733,918.61)</u>	<u>(1,425,142.48)</u>	<u>(308,776.13)</u>	21.67%
Total Net Assets	<u>\$ 44,919,805.04</u>	<u>\$ 45,700,206.27</u>	<u>\$ (780,401.23)</u>	-1.71%

Net Assets categories are defined in Note 1 (K) of the Notes to the Financial Statements.

As of June 30, 2011, the total School's net assets were \$44.92 million. The School's capital assets of \$46.35 million represent 98.26% of total assets. Total assets decreased \$1.26 million, or 2.60% mainly due to a decrease in cash and cash equivalents. This decrease was caused by increased spending of capital improvement funds for various construction projects.

The School's liabilities totaled \$2.26 million at June 30, 2011. Current liabilities, which include accounts payable, deposits payable, funds held for others, and the current portion of compensated absences decreased \$302,081, or 27.12%, primarily due to the availability of cash during the month of June which was used to reduce current payables. Noncurrent liabilities of \$1.45 million represent compensated absences. Details of both current and noncurrent liabilities are shown on the Statement of Net Assets and in Notes 4 and 5.

Unrestricted net assets were (\$1.73) million due primarily to \$1.54 million liability for unpaid leave benefits. Unrestricted net assets decreased \$308,776.13, or 21.67%, mainly due to the elimination of the appropriation carry forward. Restricted net assets decreased \$253,295.21, or 45.87% as a result of the additional spending on construction projects.

Summary of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. The School's dependency on State aid, certain grants, and gifts will result in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

operating deficits since the GASB requires that State appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The change in total net assets as presented on the Condensed Summary of Net Assets is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the School, both operating and nonoperating, the expenses paid by the School, operating and nonoperating, and any other revenues, expenses, and any gains and/or losses received or spent by the School.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the School. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the School. Nonoperating revenues are revenues received for which goods and services are not provided. Capital appropriations are considered neither operating nor nonoperating revenues and are reported after "Income (Loss) Before Other Revenues."

North Carolina School of Science and Mathematics Statement of Revenues, Expenses, and Changes in Net Assets

	2011	2010 (as restated)	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Sales and Services	\$ 683,269.45	\$ 659,041.41	\$ 24,228.04	3.68%
Other	<u>63,333.26</u>	<u>38,923.51</u>	<u>24,409.75</u>	62.71%
Total Operating Revenues	<u>746,602.71</u>	<u>697,964.92</u>	<u>48,637.79</u>	6.97%
Operating Expenses:				
Salaries and Benefits	14,498,683.28	15,005,397.32	(506,714.04)	-3.38%
Supplies and Materials	1,260,926.95	1,208,546.93	52,380.02	4.33%
Services	2,315,981.24	2,251,543.99	64,437.25	2.86%
Utilities	1,060,918.63	1,127,841.17	(66,922.54)	-5.93%
Depreciation	<u>1,161,757.11</u>	<u>1,014,566.76</u>	<u>147,190.35</u>	14.51%
Total Operating Expenses	20,298,267.21	20,607,896.17	(309,628.96)	-1.50%
Operating Loss	(19,551,664.50)	(19,909,931.25)	358,266.75	-1.80%
Nonoperating Revenues (Expenses):				
State Appropriations	18,025,863.97	17,560,916.00	464,947.97	2.65%
Noncapital Grants	388,801.82	705,811.84	(317,010.02)	-44.91%
Other Nonoperating Revenues	<u>2,053.55</u>	<u>2,112.59</u>	<u>(59.04)</u>	-2.79%
Nonoperating Revenues	<u>18,416,719.34</u>	<u>18,268,840.43</u>	<u>147,878.91</u>	0.81%
Loss Before Other Revenues	(1,134,945.16)	(1,641,090.82)	506,145.66	-30.84%
Capital Appropriations	354,543.93	56,238.58	298,305.35	530.43%
Decrease in Net Assets	(780,401.23)	(1,584,852.24)	804,451.01	-50.76%
Net Assets - July 1	<u>45,700,206.27</u>	<u>47,285,058.51</u>	<u>(1,584,852.24)</u>	-3.35%
Net Assets - June 30	<u>\$ 44,919,805.04</u>	<u>\$ 45,700,206.27</u>	<u>\$ (780,401.23)</u>	-1.71%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Condensed Summary of Revenues, Expenses, and Changes in Net Assets show a decrease in net assets of \$780,401 for the fiscal year. The total operating loss for fiscal year 2011 was \$19.55 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB, the School shows a significant operating loss.

State appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of the State Controller. For the fiscal year ending June 30, 2011, appropriations from the State for the School were \$18.03 million for operations. State appropriations increased by \$464,948, or 2.65% during the fiscal year.

Operating revenues include sales and services and other operating revenues.

Operating expenses, including depreciation of \$1.16 million, totaled \$20.30 million. Of this total, \$14.50 million was used for Salaries and Benefits and \$2.32 million was for Services. Salaries decreased approximately \$506,714 due to positions that were vacant during the year and the elimination of other positions. Services consisted of contractual agreements, data processing services, travel, and communication expenses and increased by \$64,437, or 2.86%. Supplies and materials increased by \$52,380 or 4.33% and utilities decreased by \$66,923 or 5.93%. Depreciation increased \$147,190 or 14.51%. Overall operating expenses decreased by \$309,629 or 1.50%.

Noncapital Grants decreased \$317,010, or 44.91%. This decrease is primarily due to completion of a grant funded by the Department of Education during 2010. Other nonoperating revenues decreased minimally. Capital appropriations increased \$298,305 and include appropriations from the State that can only be used for repair and renovations and increased as a result of those made during the fiscal year.

One of the School's weaknesses is the lack of diverse streams of revenues. Approximately 95% of the School's revenues come from State appropriations. The remaining 5% includes voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs. The School will continue to seek funding aggressively from all possible sources consistent with its mission and prudently manage the financial resources realized from these efforts to fund its operating activities.

Capital Assets

Primary capital projects for fiscal year 2011 were the Discovery Center Planning, Fire Safety Sprinkler, HVAC System Repair, Kitchen Replacement and Upgrades, Electronic Access Safety and Science Lab Improvements. Total capital assets, net of accumulated depreciation, at June 30, 2011 were \$46.35 million. For more detailed information about capital asset holdings, see Note 3 of the Notes to the Financial Statements.

Factors Impacting Future Periods

Management believes that the School is well positioned to continue its level of excellence in service to students, the community, and governmental agencies. The School's ongoing efforts

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

toward maximizing the State's resources with efficiency and effectiveness measures, along with UNC Tomorrow initiatives to address needs of the State will enable it to provide the necessary resources to support this level of excellence. However, reductions in State appropriations will continue to impact the ability of the School to maintain resources to provide programs and services and to meet the growing demands of the State and its citizens.

A crucial element to the School's future will continue to be its relationship with the State of North Carolina. It should be noted that the School's State appropriations will be decreased by 6.9% in 2011-2012 due to the continuing decline in the economy of North Carolina. While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina, the School's financial condition is strong enough to withstand the current economic uncertainties. The School is developing a strategic plan in 2011-2012 that will enable the School to develop and implement a blueprint for the future. The year-long project includes representatives from all constituencies of the School.

North Carolina School of Science and Mathematics
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 141,710.30
Restricted Cash and Cash Equivalents	301,946.23
Receivables	45,879.10
Inventories	33,020.50
	<hr/>
Total Current Assets	522,556.13
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	298,891.80
Capital Assets - Nondepreciable (Note 3)	5,225,846.00
Capital Assets - Depreciable, Net (Note 3)	41,128,985.85
	<hr/>
Total Noncurrent Assets	46,653,723.65
	<hr/>

Total Assets	<hr/> <hr/> 47,176,279.78
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 4)	286,506.10
Deposits Payable	51,436.59
Funds Held for Others	375,800.05
Long-Term Liabilities - Current Portion (Note 5)	98,118.00
	<hr/>
Total Current Liabilities	811,860.74
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 5)	1,444,614.00
	<hr/>
Total Liabilities	2,256,474.74
	<hr/>

NET ASSETS

Invested in Capital Assets	46,354,831.85
Restricted for:	
Expendable:	
Capital Projects	298,891.80
Unrestricted	(1,733,918.61)
	<hr/>
Total Net Assets	\$ 44,919,805.04
	<hr/> <hr/>

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

***North Carolina School of Science and Mathematics
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Sales and Services	\$ 683,269.45
Other Operating Revenues	63,333.26
	<u>746,602.71</u>
Total Operating Revenues	<u>746,602.71</u>

EXPENSES

Operating Expenses:	
Salaries and Benefits	14,498,683.28
Supplies and Materials	1,260,926.95
Services	2,315,981.24
Utilities	1,060,918.63
Depreciation	1,161,757.11
	<u>20,298,267.21</u>
Total Operating Expenses	<u>20,298,267.21</u>
Operating Loss	<u>(19,551,664.50)</u>

NONOPERATING REVENUES

State Appropriations	18,025,863.97
Noncapital Grants	388,801.82
Other Nonoperating Revenues	2,053.55
	<u>18,416,719.34</u>
Nonoperating Revenues	<u>18,416,719.34</u>
Loss Before Other Revenues	(1,134,945.16)
Capital Appropriations	<u>354,543.93</u>
Decrease in Net Assets	(780,401.23)

NET ASSETS

Net Assets, July 1, 2010 as Restated (Note 12)	<u>45,700,206.27</u>
Net Assets, June 30, 2011	<u>\$ 44,919,805.04</u>

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

***North Carolina School of Science and Mathematics
Foundation, Inc.
Statement of Financial Position
June 30, 2011***

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,341,143
Investments		5,167,737
Accounts Receivable		1,595
Pledges Receivable		82,447
Prepaid Expenses		7,712
In-Kind Gifts		41,405
Land		60,540
		<hr/>
Total Assets		7,702,579

LIABILITIES

Accounts Payable and Accrued Expenses		73,445
		<hr/>

NET ASSETS

Unrestricted		2,319,551
Temporarily Restricted		1,948,405
Permanently Restricted		3,361,178
		<hr/>
Total Net Assets	\$	7,629,134

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

***North Carolina School of Science and Mathematics
Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2011***

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Operating Revenues, Gains, and Other Support:	
Grants and Contributions	\$ 719,918
Investment Return Designated for Current Operations	3,754
Other Investment Income	21,300
Net Assets Released from Donor Restrictions	<u>283,657</u>
Total Operating Revenues, Gains, and Other Support	<u>1,028,629</u>
Operating Expenses:	
Programs	581,048
Fundraising	153,581
General and Administrative	<u>241,767</u>
Total Operating Expenses	<u>976,396</u>
Change in Net Assets from Operations	52,233
Investment Gains Other Than Amounts Designated for Current Operations	<u>248,546</u>
Increase in Unrestricted Net Assets	<u>300,779</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Operating Revenues, Gains, and Other Support:	
Grants and Contributions	164,041
Investment Return Designated for Current Operations	57,561
Other Investment Income	20,366
Net Assets Released from Donor Restrictions	<u>(283,657)</u>
Total Operating Revenues, Gains, and Other Support	<u>(41,689)</u>
Change in Net Assets from Operations	(41,689)
Investment Gains Other Than Amounts Designated for Current Operations	<u>342,051</u>
Increase in Temporarily Restricted Net Assets	<u>300,362</u>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Operating Revenues, Gains, and Other Support:	
Grants and Contributions	<u>149,524</u>
Increase in Permanently Restricted Net Assets	<u>149,524</u>
Increase in Net Assets	750,665
Net Assets - July 1, 2010	<u>6,878,469</u>
Net Assets - June 30, 2011	<u><u>\$ 7,629,134</u></u>

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

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NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS
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. The North Carolina School of Science and Mathematics (School) 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 School and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor and the Board of Trustees have delegated responsibilities for financial accountability of the School's funds. The School's component units are either blended or discretely presented in the School's financial statements. The blended component unit, although legally separate, is, in substance, part of the School's operations and therefore, is reported as if it was part of the School. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Blended Component Unit - Although legally separate, NCSSM Student and Constituent Support Services, Inc. (SCSSI), a component unit of the School, is reported as if they were part of the School.

The SCSSI is governed by five ex officio directors that must be employees of the School. The ex officio directors consist of the Chancellor, the Vice Chancellor for Student Life, the Director of Student Services, the Vice Chancellor for Administration, and the School Store Manager. Because members of the Board of Directors of the SCSSI are officials of the School and the SCSSI's sole purpose is to benefit the School, its financial statements have been blended with those of the School.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements for the SCSSI may be obtained from Dr. Joan Barber, Executive Director, North Carolina School of Science and Mathematics, Post Office Box 2418, Durham, NC 27715-2418, or by calling (919) 416-2801.

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the School in support of its programs. The Foundation board consists of 21 members. Although the School does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon, that the Foundation holds and invests are restricted to the activities of the School by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the School, the Foundation is considered a component unit of the School and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2011, the Foundation distributed \$370,109 directly to the School and paid an additional \$422,663 on behalf of the School for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from: Katie Wagstaff, Executive Director, North Carolina School of Science and Mathematics Foundation, Inc., Post Office Box 2418, Durham, NC 27715-2418, or by calling (919) 416-2866.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Public Colleges and Universities, the full scope of the School'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 School 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 School 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 School receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, cash on deposit with private bank accounts and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables include amounts due from state agencies and are reported at gross.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using last invoice cost method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The School capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 75 years for buildings, and 2 to 25 years for equipment.

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

- H. 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.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The School's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

There is no liability for unpaid accumulated sick leave because the School 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

K. Net Assets - The School's net assets are classified as follows:

Invested in Capital Assets - This represents the School's total investment in capital assets.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the School 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 unrestricted gifts not subject to donor-imposed stipulations 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 School.

L. Revenue and Expense Recognition - The School 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 School's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - Unless specifically exempt, the School 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the School to deposit its institutional trust funds with the State Treasurer. Although specifically exempted, the School may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer. Special funds consist of moneys for athletics and agency funds held directly by the School.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$657,804.33 which represents the School's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 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 \$400.00. The carrying amount of the School's deposits not with the State Treasurer was \$84,344.00 and the bank balance was \$121,531.85. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk. As of June 30, 2011, the School's bank balance was fully insured by federal depository insurance and was not exposed to custodial credit risk.

B. Investments of Component Unit

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	<u>Fair Value</u>
UNC Investment Fund	\$ 5,076,549
Other Mutual Funds	<u>91,188</u>
	<u>\$ 5,167,737</u>

NOTE 3 - CAPITAL ASSETS

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

	<u>Balance July 1, 2010 (restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital Assets, Nondepreciable:				
Land	\$ 1,337,173.66	\$ 0.00	\$ 0.00	\$ 1,337,173.66
Art	10,092.76			10,092.76
Construction in Progress	<u>3,213,845.18</u>	<u>664,734.40</u>		<u>3,878,579.58</u>
Total Capital Assets, Nondepreciable	<u>4,561,111.60</u>	<u>664,734.40</u>		<u>5,225,846.00</u>
Capital Assets, Depreciable:				
Buildings	51,356,149.10			51,356,149.10
Machinery and Equipment	1,711,497.28	278,692.82		1,990,190.10
General Infrastructure	<u>1,695,363.00</u>			<u>1,695,363.00</u>
Total Capital Assets, Depreciable	<u>54,763,009.38</u>	<u>278,692.82</u>		<u>55,041,702.20</u>
Less Accumulated Depreciation for:				
Buildings	11,300,153.06	1,028,422.98		12,328,576.04
Machinery and Equipment	986,430.82	94,527.61		1,080,958.43
General Infrastructure	<u>464,375.36</u>	<u>38,806.52</u>		<u>503,181.88</u>
Total Accumulated Depreciation	<u>12,750,959.24</u>	<u>1,161,757.11</u>		<u>13,912,716.35</u>
Total Capital Assets, Depreciable, Net	<u>42,012,050.14</u>	<u>(883,064.29)</u>		<u>41,128,985.85</u>
Capital Assets, Net	<u>\$ 46,573,161.74</u>	<u>\$ (218,329.89)</u>	<u>\$ 0.00</u>	<u>\$ 46,354,831.85</u>

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Accounts Payable	\$ 273,175.85
Accrued Payroll	<u>13,330.25</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 286,506.10</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - 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
Compensated Absences	\$ 1,751,487.00	\$ 809,876.00	\$ 1,018,631.00	\$ 1,542,732.00	\$ 98,118.00

NOTE 6 - OPERATING LEASE OBLIGATIONS

During 2011, the School entered into operating leases for equipment and housing. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 78,323.51
2013	44,235.98
2014	4,891.61
Total Minimum Lease Payments	\$ 127,451.10

Total rental expense for all operating leases during the year was \$107,212.10.

NOTE 7 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	\$ 7,302,362.28	\$ 225,122.00	\$ 343,828.00	\$ 0.00	\$ 0.00	\$ 7,871,312.28
Academic Support	368,760.00	73,658.00	47,314.00			489,732.00
Student Services	2,485,886.00	369,349.95	1,518,455.00			4,373,690.95
Institutional Support	3,248,832.00	181,878.00	261,156.00			3,691,866.00
Operations and Maintenance of Plant	1,092,843.00	410,919.00	145,228.24	1,060,918.63		2,709,908.87
Depreciation					1,161,757.11	1,161,757.11
Total Operating Expenses	\$ 14,498,683.28	\$ 1,260,926.95	\$ 2,315,981.24	\$ 1,060,918.63	\$ 1,161,757.11	\$ 20,298,267.21

NOTE 8 - 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'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 School had a total payroll of \$11,586,896.89, of which \$9,600,896.67 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$473,324.21 and \$576,053.80, 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 School made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$473,324.21, \$363,185.65, and \$343,212.03, 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 (ORP) 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 School may join the ORP 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 ORP and designates the companies

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Participants in the ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the ORP. 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 School assumes no liability other than its contribution.

For the current fiscal year, the School had a total payroll of \$11,586,896.89, of which \$1,094,661.33 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$74,874.83 and \$65,679.68, 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 School. The voluntary contributions by employees amounted to \$44,163.00 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 School. The voluntary

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions by employees amounted to \$87,099.00 for the year ended June 30, 2011.

IRC Section 403(b) and 403(b)(7) Plans - Eligible School 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 School. The voluntary contributions by employees amounted to \$157,935.00 for the year ended June 30, 2011.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The School 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the current fiscal year the School 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 School made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$524,082.34, \$507,485.34, and \$460,304.19, respectively. The School assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

- B. Disability Income** - The School 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 School 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 School made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$55,616.90, \$58,642.75, and \$58,380.04, respectively. The School 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 10 - RISK MANAGEMENT

The School 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The School 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 School 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.

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 School pays premiums to the North Carolina Department of Insurance for the coverage.

The School 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. Schools 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.

School 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 School's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The School is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The School 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 11 - COMMITMENTS AND CONTINGENCIES

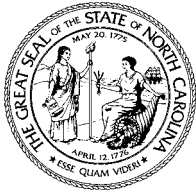
A. Commitments - The School has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$597,800.04 at June 30, 2011.

B. Pending Litigation and Claims - The School 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. School 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 School.

NOTE 12 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2010 Net Assets as Previously Reported	\$ 45,583,367.27
Restatement	
To Correct Beginning Net Assets for the Blending of the NCSSM Student and Constituent Support Services, Inc.	<u>116,839.00</u>
July 1, 2010 Net Assets as Restated	<u><u>\$ 45,700,206.27</u></u>



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
North Carolina School of Science and Mathematics
Durham, North Carolina

We have audited the financial statements of the North Carolina School of Science and Mathematics, 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 School's basic financial statements and have issued our report thereon dated May 14, 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 discretely presented component unit, as described in our report on the School'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 School'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 School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School'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 School's financial statements will not be prevented, or detected and corrected on a timely basis.

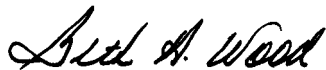
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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 School'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 School, 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

May 14, 2012

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