



STATE OF NORTH CAROLINA

NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited the accompanying financial statements of North Carolina Central University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, 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 NCCU Real Estate Foundation, Inc., which represent 6 percent and 1 percent, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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, 2012, 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 January 2, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

January 2, 2013

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 of North Carolina Board Of Governors approved a comprehensive restructuring program designed to strengthen academic programming and offerings, positioning the University's students for greater success. The restructuring recommendation was the result of a comprehensive process conducted by the University's Program Review and Restructuring Commission. Implementation of the plan, which includes the merging of some academic programs and the elimination of others, will begin to take place in fall 2012.

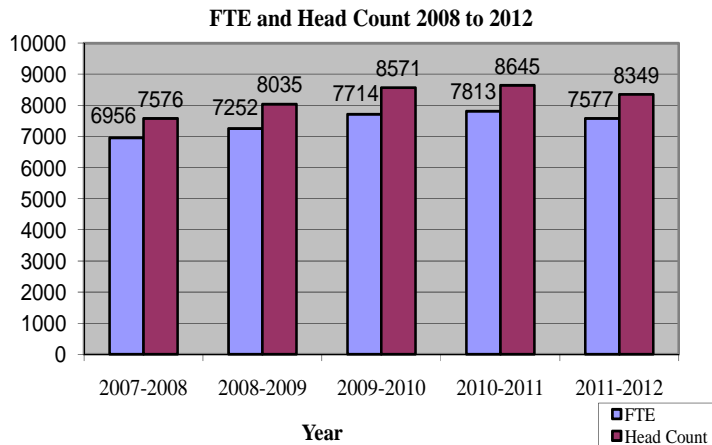
The University continues to be recognized nationally on several fronts. US News & World Report again ranked the University among the top HBCUs (Historically Black Colleges and Universities). The School of Law was also named the nation's "best value" for two years in a row by National Jurist magazine and ranked fourth in the nation in clinical opportunities for students by preLaw magazine. The University's student-led newspaper Campus Echo continued award-winning journalism and earned 11 awards during the National HBCU Student News Media Conference. During the year, the University's newest residence hall was LEED gold certified by the US Green Building Council. LEED certification is based on the design, construction and operation of buildings in ways that minimize adverse environmental effects.

Adjusted state appropriations were \$83.6 million for fiscal year 2012, which was a \$0.5 million increase from fiscal year 2011. The total University budget, including receipts, for fiscal year 2012 was \$129.1 million as compared to \$136.7 million in 2011, a 6% decrease. The decrease in the University's total budget was primarily the result of a permanent budget reduction mandated by the Office of State Budget and Management.

The Office of Institutional Advancement continued raising the awareness of the importance of giving during the year. During the fiscal year, the Office of Institutional Advancement generated \$4.2 million in total fundraising, which includes pledges and other gifts of \$1.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the past academic year, the University's total enrollment decreased by 296. The decrease in 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 has decreased, the University has increased its applicant pool, which has yielded well-rounded and talented enrollees.



Financial Highlights

Condensed Statement of Net Assets

	2012	2011
Assets		
Current Assets	\$ 33,453,604	\$ 36,157,006
Capital Assets, Net	295,840,633	287,025,865
Other Assets	25,327,907	34,051,598
Total Assets	354,622,144	357,234,469
Liabilities		
Current Liabilities	17,213,503	27,150,113
Noncurrent Liabilities	100,085,273	102,690,792
Total Liabilities	117,298,776	129,840,905
Net Assets		
Invested in Capital Assets, Net of Related Debt	210,169,566	203,191,951
Restricted - Expendable	10,419,677	14,606,009
Restricted - Nonexpendable	14,567,297	12,889,183
Unrestricted	2,166,828	(3,293,579)
Total Net Assets	\$ 237,323,368	\$ 227,393,564

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Net Assets reports all assets and liabilities of the University; additionally, the statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer. This statement also reports the net assets, which is the difference between the total assets and total liabilities. The reader may use the net assets to gauge the financial position of the University as of June 30, 2012.

As of June 30, 2012, the University's total assets were \$354.6 million as compared to \$357.2 million in the prior year, a decrease of \$2.6 million. The change in assets reflects an increase of \$16.6 million in capital assets, net of a \$7.8 million increase in accumulated depreciation (\$8.8 million increase in net capital assets) and decreases in current and other assets of \$11.4 million. During the year, with the completion of projects begun in prior years, cash restricted for capital projects was depleted, resulting in an \$11.2 million decrease in noncurrent restricted cash which contributed to the net increase in capital assets from \$287 million to \$295.8 million. Another significant change included a decrease of \$2.1 million in federal financial aid receivables, which is attributable to a corresponding decrease in nonoperating revenues received by the University by federal financial aid programs.

The University's liabilities totaled \$117.3 million at June 30, 2012 and \$129.8 million at June 30, 2011. The June 30, 2012 balance consisted primarily of the debt service on the UNC System Pool Revenue Bonds, Series 2009C (\$58.7 million) and student housing bonds (\$25 million). The decrease in liabilities is \$12.5 million and is directly attributable to the University completing two major construction projects, substantially reducing prior year contract payables and retainage as well as paying off most state fund payables by the end of the fiscal year.

The total current liabilities of \$17.2 million were covered 1.9 times by current assets of \$33.5 million, which indicates the University's ability to pay current liabilities as they become due.

As of June 30, 2012, the University had net assets of \$237.3 million, which is an increase of \$9.9 million from the prior year. Part of the increase was the result of the fact that the University's state appropriation covered all prior year state liabilities, as well as current year state expenditures. Another large portion of the increase is due to the completion of two major construction projects. See the capital assets section below for more information.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2012	2011
Operating Revenues		
Student Tuition and Fees, Net	\$ 39,324,084	\$ 37,607,150
Contracts and Grants	9,611,933	10,484,941
Sales and Services, Net	21,987,692	18,292,163
Other Operating Revenues	875,066	1,193,754
Total Operating Revenues	71,798,775	67,578,008
Operating Expenses		
Salaries and Benefits	119,577,442	117,926,798
Supplies and Materials	11,391,435	15,607,380
Services	28,873,406	38,778,480
Scholarships and Fellowships	12,894,740	16,542,921
Utilities	4,657,048	5,032,691
Depreciation	8,276,930	7,408,520
Operating Expenses	185,671,001	201,296,790
Operating Loss	(113,872,226)	(133,718,782)
Nonoperating Revenues and Expenses		
State Appropriations	83,576,154	83,148,256
State Aid - Federal Recovery Funds		5,340,833
Noncapital Grants	35,587,983	38,649,249
Noncapital Gifts	181,523	166,914
Investment Income	622,709	3,323,954
Other Nonoperating Expenses	(3,607,839)	(2,944,658)
Income (Loss) Before Other Revenues	2,488,304	(6,034,234)
Capital Grants	6,687,700	13,390,730
Capital Gifts	3,800	
Additions to Endowments	750,000	
Total Other Revenues	7,441,500	13,390,730
Increase in Net Assets	9,929,804	7,356,496
Net Assets- Beginning of the Year	227,393,564	220,037,068
Net Assets - End of Year	\$ 237,323,368	\$ 227,393,564

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, supplies, services, scholarships, utilities, and depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating revenues of \$71.8 million at June 30, 2012, increased by \$4.2 million when compared to 2011. The change was due to increases in student tuition and fees and sales and services revenues. Student tuition and fees increased \$1.7 million, which is the result of raising tuition by 5% and fees by 6.5%. Sales and services revenue increased by \$3.7 million due to opening a new residence hall, operating a new parking deck, and higher food service revenue, while contracts and grants and other revenues decreased by \$1.2 million.

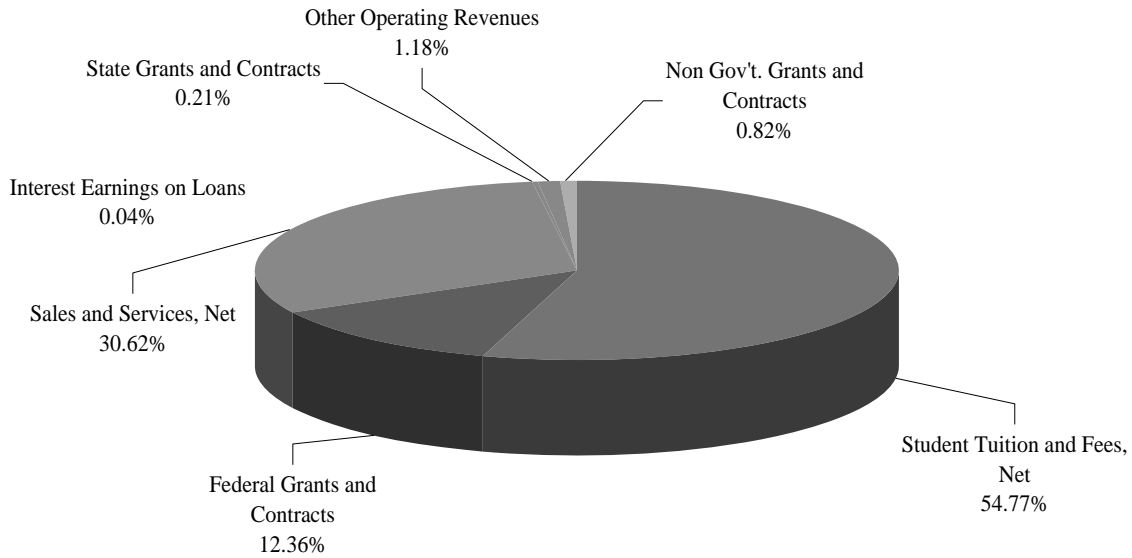
Operating expenses decreased by \$15.6 million when compared to 2011. The most significant decrease of \$9.9 million was in services. In 2011, the University focused on small campus renovation projects that were not funded in 2012. In response to the significant budget reductions, the University limited its expenditures to those that were absolutely essential. Supplies and materials expenditures also decreased significantly: by \$4.2 million, representing a 27% decrease from 2011. Scholarships and fellowships were also reduced; Pell grants awarded in fiscal year 2012 were \$2.4 million less than the prior year.

Overall, the University sustained a total operating loss of \$113.9 million in the current fiscal year, which is \$19.8 million less than the loss in fiscal year 2011. 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 2012, state appropriations were \$83.6 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. The American Recovery and Reinvestment Act programs ended in fiscal year 2011, resulting in a \$5.3 million decrease in state aid. From fiscal year 2011 to fiscal year 2012, investment income decreased by \$2.7 million. The decrease in net unrealized investment gains were \$2 million, while realized gains and other investment income decreased by \$0.7 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenues by Source



Capital Assets and Debt Administration

The construction in progress balance as of June 30, 2012 was \$4.2 million compared to the 2011 balance of \$50.5 million. The difference of \$46.3 million from 2011 is primarily due to the completion of two major projects during the year: new student housing and the nursing building. During the year, the University also completed a Student Facilities Improvement project, which added \$8.4 million to buildings. Outstanding commitments on construction contracts were \$2.5 million at June 30, 2012. The \$6.7 million decrease in capital grants from 2011 represents the final drawdown of the appropriation for the completion of the nursing building and occurred early in the current fiscal year. 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, 2012, the University had \$89.2 million in outstanding bonds and notes payable of which \$58.7 million was for outstanding bonds issued by the UNC System Pool Revenue Bonds, Series 2009C to complete the construction of student housing, a parking deck, and renovations to the Walker Athletic Complex.

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.

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. 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.

Total 2012 fall enrollment increased by 3%, the result of increased first time students and a slight increase in the retention rate. The University's increased retention rate from 68% to 71% in fall 2012 was a direct result of a well prepared applicant pool. The University will continue to focus 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. The University's Julius L. Chambers Biomedical/Biotechnology Research Institute has received a five-year grant of \$5.7 million from the National Institutes of Health. The Center for Science, Math and Technology Education is receiving a \$1.4 million grant from the Howard Hughes Medical Institute. These and other grants are the result of faculty efforts and represent a means by which the University enhances the educational opportunities of its students. 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, 2012

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 5,838,643
Restricted Cash and Cash Equivalents (Note 2)	13,362,837
Restricted Short-Term Investments (Note 2)	766,172
Receivables, Net (Note 4)	11,052,801
Due from University Component Units	1,353,528
Inventories	976,367
Notes Receivable, Net (Note 4)	103,256
	<hr/>
Total Current Assets	33,453,604
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	922,832
Restricted Due from Primary Government	3,550
Endowment Investments (Note 2)	19,225,510
Deferred Charges	502,514
Deferred Outflow of Resources (Note 8)	1,652,301
Notes Receivable, Net (Note 4)	3,021,200
Capital Assets - Nondepreciable (Note 5)	12,274,723
Capital Assets - Depreciable, Net (Note 5)	283,565,910
	<hr/>
Total Noncurrent Assets	321,168,540
	<hr/>

Total Assets	354,622,144
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	8,190,683
Due to Primary Government	148,399
Funds Held for Others	1,353,528
Unearned Revenue	1,763,091
Interest Payable	1,040,177
Long-Term Liabilities - Current Portion (Note 7)	4,717,625
	<hr/>
Total Current Liabilities	17,213,503
	<hr/>

Noncurrent Liabilities:

Deposits Payable	400
Funds Held for Others	764,313
U. S. Government Grants Refundable	2,236,509
Hedging Derivative Liability (Note 8)	1,652,301
Long-Term Liabilities (Note 7)	95,431,750
	<hr/>
Total Noncurrent Liabilities	100,085,273
	<hr/>

Total Liabilities	117,298,776
	<hr/>

North Carolina Central University
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	210,169,566
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,439,793
Endowed Professorships	8,943,855
Loans	1,183,649
Expendable:	
Scholarships and Fellowships	2,471,845
Research	311,852
Endowed Professorships	4,597,775
Departmental Uses	1,364,370
Debt Service	1,664,263
Other	9,572
Unrestricted	<u>2,166,828</u>
Total Net Assets	<u><u>\$ 237,323,368</u></u>

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

North Carolina Central University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 39,324,084
Federal Grants and Contracts	8,875,848
State and Local Grants and Contracts	148,624
Nongovernmental Grants and Contracts	587,461
Sales and Services, Net (Note 10)	21,987,692
Interest Earnings on Loans	27,103
Other Operating Revenues	847,963
	<hr/>
Total Operating Revenues	71,798,775
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	119,577,442
Supplies and Materials	11,391,435
Services	28,873,406
Scholarships and Fellowships	12,894,740
Utilities	4,657,048
Depreciation	8,276,930
	<hr/>
Total Operating Expenses	185,671,001
	<hr/>
Operating Loss	(113,872,226)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	83,576,154
Noncapital Grants - Student Financial Aid	20,940,854
Other Noncapital Grants	14,647,129
Noncapital Gifts	181,523
Investment Income (Net of Investment Expense of \$93,168)	622,709
Interest and Fees on Debt	(4,001,068)
Other Nonoperating Revenues	393,229
	<hr/>
Net Nonoperating Revenues	116,360,530
	<hr/>
Income Before Other Revenues	2,488,304
Capital Grants	6,687,700
Capital Gifts	3,800
Additions to Endowments	750,000
	<hr/>
Increase in Net Assets	9,929,804

NET ASSETS

Net Assets - July 1, 2011	<hr/>
	227,393,564
Net Assets - June 30, 2012	<hr/>
	\$ 237,323,368
	<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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 72,503,863
Payments to Employees and Fringe Benefits	(120,458,785)
Payments to Vendors and Suppliers	(49,353,753)
Payments for Scholarships and Fellowships	(12,894,740)
Loans Issued	(246,960)
Collection of Loans	352,862
Interest Earned on Loans	27,302
Other Payments	(925,506)
	<hr/>
Net Cash Used by Operating Activities	(110,995,717)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	83,576,154
Noncapital Grants - Student Financial Aid	20,940,854
Noncapital Grants	17,248,630
Noncapital Gifts	181,523
Additions to Endowments	750,000
William D. Ford Direct Lending Receipts	84,472,667
William D. Ford Direct Lending Disbursements	(84,472,667)
Related Activity Agency Receipts	745,750
Other Receipts	393,229
	<hr/>
Net Cash Provided by Noncapital Financing Activities	123,836,140

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Grants	6,724,248
Acquisition and Construction of Capital Assets	(23,470,804)
Principal Paid on Capital Debt and Leases	(3,302,624)
Interest and Fees Paid on Capital Debt and Leases	(3,979,646)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(24,028,826)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	4,163,007
Investment Income	317,625
Purchase of Investments and Related Fees	(4,553,676)
	<hr/>
Net Cash Used by Investing Activities	(73,044)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(11,261,447)
Cash and Cash Equivalents - July 1, 2011	31,385,759
	<hr/>
Cash and Cash Equivalents - June 30, 2012	\$ 20,124,312

North Carolina Central University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (113,872,226)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,276,930
Allowances and Write-Offs	425,427
Changes in Assets and Liabilities:	
Receivables (Net)	(369,684)
Inventories	(282,558)
Notes Receivable (Net)	105,902
Accounts Payable and Accrued Liabilities	(5,057,984)
Due to Primary Government	129,085
Due to State of Federal Agencies	(251,885)
US Government Grants refundable	(925,506)
Unearned Revenue	836,607
Compensated Absences	(9,825)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (110,995,717)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 5,838,643
Restricted Cash and Cash Equivalents	13,362,837
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	922,832
	<hr/>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 20,124,312</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 3,048,465
Assets Acquired through a Gift	3,800
Change in Fair Value of Investments	404,580
Loss on Disposal of Capital Assets	(165,415)

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, 2012

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,388,605
Contributions Receivable, Net		292,596
Investments		9,846,666
Cash Surrender Value of Life Insurance		213,947
Property and Equipment, Net		171,384
		<hr/>
Total Assets		12,913,198

LIABILITIES

Accounts Payable and Accrued Expenses		2,401
Capital Lease Obligation		102,124
Funds Held on Behalf of Others		1,345,240
		<hr/>
Total Liabilities		1,449,765

NET ASSETS

Unrestricted		1,752,219
Temporarily Restricted		1,386,186
Permanently Restricted		8,325,028
		<hr/>
Total Net Assets	\$	11,463,433

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, 2012

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES				
Revenues, Gains, and Other Support:				
Contributions	\$ 80,960	\$ 1,138,194	\$ 491,751	\$ 1,710,905
Interest and Dividends	9,825	140,922	10,252	160,999
Realized and Unrealized Losses on Investments	(5,821)	(206,721)		(212,542)
Other Income	236,650	29,117		265,767
Net Assets Released from Donor Restrictions	1,230,182	(1,230,182)		
Total Revenues, Gains, and Other Support	<u>1,551,796</u>	<u>(128,670)</u>	<u>502,003</u>	<u>1,925,129</u>
EXPENSES				
Program Services:				
Scholarships and Grants	864,557			864,557
University Support	558,520			558,520
Management and General	301,478			301,478
Bad Debt		351,270	180,574	531,844
Total Expenses	<u>1,724,555</u>	<u>351,270</u>	<u>180,574</u>	<u>2,256,399</u>
Changes in Net Assets Before Net Asset Transfers	<u>(172,759)</u>	<u>(479,940)</u>	<u>321,429</u>	<u>(331,270)</u>
Transfer from North Carolina Central University for Capital Lease Payment	55,985			55,985
Changes in Net Assets	(116,774)	(479,940)	321,429	(275,285)
NET ASSETS				
Net Assets - July 1, 2011	<u>1,868,993</u>	<u>1,866,126</u>	<u>8,003,599</u>	<u>11,738,718</u>
Net Assets - June 30, 2012	<u>\$ 1,752,219</u>	<u>\$ 1,386,186</u>	<u>\$ 8,325,028</u>	<u>\$ 11,463,433</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, 2012**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit - Although legally separate, the NCCU Real Estate Foundation, Inc. (Real Estate Foundation), a component unit of the University, is reported as if it 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 income thereon, that the NCCU Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the NCCU Foundation can only be used by, or for the benefit of the University, the NCCU Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2012, the NCCU Foundation distributed \$1,675,862 to the University for both restricted and unrestricted purposes. The University remitted \$166,726 in payroll deducted employee contributions and \$98,968 in other reimbursements to the NCCU Foundation. Complete financial statements for the NCCU Foundation can be obtained from the University 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 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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, include 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 the 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Land is capitalized regardless of cost.

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, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, motor pool, 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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, 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, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$18,506,917 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012. 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) 707-0500.

Cash on hand at June 30, 2012 was \$1,900. The carrying amount of the University's deposits not with the State Treasurer was \$1,615,495 and the bank balance was \$1,659,897. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income. Purchases in the 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, 2012, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	<u>Fair Value</u>
UNC Investment Fund	<u>\$ 15,331,149</u>

UNC Investment Fund, LLC - At June 30, 2012, the University's investments include \$15,331,149 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment 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 UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 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, 2012, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Investment Maturities (in Years)	
	Fair Value	Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 142,508	\$ 142,508
Other Securities		
Domestic Stocks	4,518,025	
Total Non-Pooled Investments	\$ 4,660,533	

At June 30, 2012, the University's non-pooled investments included \$142,508 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, 2012:

	Fair Value
Investment Type	
Debt Securities	
Money Market Mutual Funds	\$ 142,508
Other Securities	
UNC Investment Fund	15,331,149
Domestic Stocks	4,518,025
Total Investments	\$ 19,991,682

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

	Fair Value
Investment Type	
Money Market Funds	\$ 270,814
Equity Securities	5,144,773
Debt Securities	1,616,549
U.S. Government Obligations	1,340,270
Mutual Funds	1,176,407
Exchange Traded Funds	297,853
Total Investments	\$ 9,846,666

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, 2012 is as follows:

Cash on Hand	\$	1,900
Amount of Deposits with Private Financial Institutions		1,615,495
Deposits in the Short-Term Investment Fund		18,506,917
Investments in the UNC Investment Fund		15,331,149
Non-Pooled Investments		4,660,533
Total Deposits and Investments	\$	40,115,994
Deposits		
Current:		
Cash and Cash Equivalents	\$	5,838,643
Restricted Cash and Cash Equivalents		13,362,837
Noncurrent:		
Restricted Cash and Cash Equivalents		922,832
Total Deposits		20,124,312
Investments		
Current:		
Restricted Short-Term Investments	\$	766,172
Noncurrent:		
Endowment Investments		19,225,510
Total Investments		19,991,682
Total Deposits and Investments	\$	40,115,994

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 determined by 5.5% of the five year moving average of the fund's market value. If current year earnings do not meet the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University's Board of Trustees of the Endowment Fund. At June 30, 2012, net appreciation of \$5,855,753 was available to be spent, of which \$3,764,134 was classified in net assets as Restricted Expendable Scholarships and Fellowships and Restricted Expendable Endowed Professorships, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 7,777,988	\$ 4,242,399	\$ 3,535,589
Accounts	684,731		684,731
Intergovernmental	6,772,316		6,772,316
Investment Earnings	4,460		4,460
Interest on Loans	55,705		55,705
	Total Current Receivables	\$ 4,242,399	\$ 11,052,801
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 230,130	\$ 126,874	\$ 103,256
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 6,755,520	\$ 3,734,320	\$ 3,021,200

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012 is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 7,268,762	\$ 5,907	\$ 0	\$ 7,274,669
Art, Literature, and Artifacts	827,640	3,800		831,440
Construction in Progress	50,476,731	12,357,663	58,665,780	4,168,614
Total Capital Assets, Nondepreciable	58,573,133	12,367,370	58,665,780	12,274,723
Capital Assets, Depreciable:				
Buildings	270,126,333	61,013,600		331,139,933
Machinery and Equipment	35,459,647	1,161,943	628,208	35,993,382
General Infrastructure	14,903,536	1,379,981		16,283,517
Total Capital Assets, Depreciable	320,489,516	63,555,524	628,208	383,416,832
Less Accumulated Depreciation for:				
Buildings	71,122,035	5,389,940		76,511,975
Machinery and Equipment	11,318,086	2,285,612	462,792	13,140,906
General Infrastructure	9,596,663	601,378		10,198,041
Total Accumulated Depreciation	92,036,784	8,276,930	462,792	99,850,922
Total Capital Assets, Depreciable, Net	228,452,732	55,278,594	165,416	283,565,910
Capital Assets, Net	\$ 287,025,865	\$ 67,645,964	\$ 58,831,196	\$ 295,840,633

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012 were as follows:

	Amount
Accounts Payable	\$ 5,555,893
Accrued Payroll	718,913
Contract Retainage	1,590,144
Intergovernmental Payables	315,502
Other	10,231
Total Accounts Payable and Accrued Liabilities	\$ 8,190,683

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, 2012 is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 85,830,000	\$ 0	\$ 2,195,000	\$ 83,635,000	\$ 2,290,000
Deduct Discount	(327,511)		(14,496)	(313,015)	
Deduct Unamortized Loss on Refunding	(667,185)		(56,782)	(610,403)	
Total Revenue Bonds Payable	84,835,304		2,123,722	82,711,582	2,290,000
Notes Payable	6,532,959			6,532,959	274,460
Capital Leases Payable	4,898,102		1,107,624	3,790,478	1,155,265
Compensated Absences	7,124,180	5,124,828	5,134,652	7,114,356	997,900
Total Long-Term Liabilities	\$ 103,390,545	\$ 5,124,828	\$ 8,365,998	\$ 100,149,375	\$ 4,717,625

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, 2012	Principal Outstanding June 30, 2012	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	\$ 2,870,000	\$ 5,800,000	
Housing System, Parking Facility	2009C	4.0% to 5.5%	10/01/2034	60,675,000	1,990,000	58,685,000	
Total of The University of North Carolina System Pool Revenue Bonds				69,345,000	4,860,000	64,485,000	
NCCU Real Estate Foundation, Inc.							
Real Estate Foundation Housing System	2003A	3.53%*	10/01/2034	21,475,000	2,325,000	19,150,000	(1)
Total Revenue Bonds Payable (principal only)				\$ 90,820,000	\$ 7,185,000	\$ 83,635,000	
Less: Unamortized Discount						(313,015)	
Unamortized Loss on Refunding						(610,403)	
Total Revenue Bonds Payable						\$ 82,711,582	

* 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	\$ 23,073,433	\$ 1,359,631	\$ 405,000	\$ 27,031	24.78%

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 consisting of Series 2003A for \$21,475,000 that has a final maturity date of October 1, 2034. The series was 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 0.18% for Series 2003A bonds at June 30, 2012. 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 \$19,367,033. 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 \$238,002 during the year ended June 30, 2012. The total amount drawn and paid on the letter of credit for the year ended June 30, 2012 was \$432,031.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Wells Fargo 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, 2012, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2012, the Foundation paid remarketing fees of \$23,931.

Swap Payments and Associated Debt: As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2012, debt service requirements of the University's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows:

Fiscal Year Ending June 30	Interest Rate Swap					
	Principal	Variable-Rate Bond			Interest Rate Swaps, Net	Total
		Interest	Letter of Credit	Remarketing		
2013	\$ 430,000	\$ 33,961	\$ 226,406	\$ 23,584	\$ 251,589	\$ 965,540
2014	455,000	33,152	221,010	23,022	246,279	978,463
2015	480,000	32,297	215,314	22,429	239,932	989,972
2016	505,000	31,483	209,887	21,863	233,884	1,002,117
2017	535,000	30,446	202,975	21,143	227,451	1,017,015
2018-2022	3,155,000	136,065	907,098	94,489	1,009,601	5,302,253
2023-2027	4,135,000	102,938	686,254	71,485	380,342	5,376,019
2028-2032	5,420,000	59,523	396,821	41,336		5,917,680
2033-2035	4,035,000	9,383	62,553	6,516		4,113,452
Total	<u>\$ 19,150,000</u>	<u>\$ 469,248</u>	<u>\$ 3,128,318</u>	<u>\$ 325,867</u>	<u>\$ 2,589,078</u>	<u>\$ 25,662,511</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, 2012 are as follows:

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2013	\$ 2,290,000	\$ 3,222,005	\$ 251,589	\$ 274,460	\$ 314,235
2014	2,400,000	3,145,595	246,279	293,477	301,034
2015	2,500,000	3,063,785	239,932	313,316	286,918
2016	2,615,000	2,976,771	233,884	334,007	271,847
2017	2,730,000	2,885,615	227,451	355,584	255,781
2018-2022	15,850,000	12,740,027	1,009,601	2,134,880	1,000,018
2023-2027	17,365,000	9,484,235	380,342	2,827,235	422,671
2028-2032	21,715,000	5,706,029			
2033-2035	16,170,000	1,034,995			
Total Requirements	\$ 83,635,000	\$ 44,259,057	\$ 2,589,078	\$ 6,532,959	\$ 2,852,504

The effective interest rate on the variable rate Student Housing Facilities Revenue Bonds (including the effect of the swap) is calculated at 3.53% at June 30, 2012. 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 Instruments.

E. Prior Year Defeasance - 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, 2012, the outstanding balance of prior year defeased bonds was \$5,415,000.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
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, 2012 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2012	
		Classification	Decrease	Classification	Liability
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap 2003A Bonds	\$ 7,660,000	Deferred Outflow of Resources	<u>\$ (790,577)</u>	Hedging Derivatives	<u>\$ (1,652,301)</u>

Hedging derivative instruments held at June 30, 2012 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge of Changes in Cash Flows on the Student Housing Facilities Revenue Series 2003A Bonds	<u>\$ 7,660,000</u>	4/1/2004	10/1/2024	Pay 3.515% Receive 70% 1 Mo. LIBOR

The fair value of the pay-fixed interest rate swap was developed by the financial institution. This 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. The fair value is the present value of these payments.

Hedging Derivative Risks

Credit Risk: At June 30, 2012, the NCCU Real Estate Foundation, Inc. (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. Wells Fargo's current long-term ratings are Aa3 by Moody's Investor's Service and AA- by Standard and Poor's Corporation (S&P).

Interest Rate Risk: The 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, 2012.

Basis Risk: The swap exposes the Foundation to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 3.53% at June 30, 2012. As of June 30, 2012, the rate on the Foundation's bonds was 0.18% whereas 70% of LIBOR was 0.169%.

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, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 1,322,720
2014	1,322,720
2015	1,322,720
2016	94,409
2017	94,408
Total Minimum Lease Payments	4,156,977
Amount Representing Interest (4.004% to 7.90% Rate of Interest)	366,499
Present Value of Future Lease Payments	\$ 3,790,478

General infrastructure acquired under capital lease amounted to \$566,900 at June 30, 2012. Machinery and equipment acquired under capital lease amounted to \$5,622,271 at June 30, 2012. 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, 2012:

Fiscal Year	Amount
2013	\$ 146,510
2014	118,497
2015	9,875
Total Minimum Lease Payments	\$ 274,882

Rental expense for all operating leases during the year was \$624,016.

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 51,733,340	\$ 0	\$ 12,014,449	\$ 394,807	\$ 39,324,084
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 12,447,294	\$ 130,311	\$ 2,513,944	\$ 0	\$ 9,803,039
Dining	8,773,217	319,367	2,095,920		6,357,930
Student Union Services	1,276,251		303,584		972,667
Health, Physical Education, and Recreation Services	890,918		211,924		678,994
Bookstore	335,410				335,410
Parking	1,149,540	48,150			1,101,390
Athletic	1,420,073	461,430	337,795		620,848
Other	1,746,470	657,825			1,088,645
Sales and Services of Education and Related Activities	1,036,629	7,860			1,028,769
Total Sales and Services	\$ 29,075,802	\$ 1,624,943	\$ 5,463,167	\$ 0	\$ 21,987,692

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	\$ 62,547,451	\$ 3,217,996	\$ 6,387,655	\$ 0	\$ 0	\$ 0	\$ 72,153,102
Research	4,930,274	1,384,197	1,920,634				8,235,105
Public Service	1,029,982	9,079	232,583				1,271,644
Academic Support	11,543,836	2,714,116	1,524,748				15,782,700
Student Services	3,585,915	312,395	1,073,060				4,971,370
Institutional Support	18,827,719	564,242	3,788,402				23,180,363
Operations and Maintenance of Plant	5,059,878	1,885,538	1,511,068		4,075,191		12,531,675
Student Financial Aid	1,281,046			12,894,740			14,175,786
Auxiliary Enterprises	10,771,341	1,303,872	12,435,256		581,857		25,092,326
Depreciation						8,276,930	8,276,930
Total Operating Expenses	<u>\$ 119,577,442</u>	<u>\$ 11,391,435</u>	<u>\$ 28,873,406</u>	<u>\$ 12,894,740</u>	<u>\$ 4,657,048</u>	<u>\$ 8,276,930</u>	<u>\$ 185,671,001</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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$93,889,979, of which \$55,857,838 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$4,155,823 and \$3,351,470, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$4,155,823, \$2,762,230, and \$2,335,363, 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) 707-0500.

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, 2012, 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 \$93,889,979, of which \$23,579,030 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,612,806 and \$1,414,742, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code Section 457 Plan - The state of North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$150,533 for the year ended June 30, 2012.

Internal Revenue Code 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, 2012, were \$12,196. The voluntary contributions by employees amounted to \$383,355 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrators are TIAA-CREF and Fidelity. No costs are incurred by the University. The voluntary contributions by employees amounted to \$949,970 for the year ended June 30, 2012.

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the University contributed 5.0% 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, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$3,971,843, \$3,807,785, and \$3,878,540, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) 707-0500.

- 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, 2012, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$413,072, \$404,092, and \$448,187, 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 purchases 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.

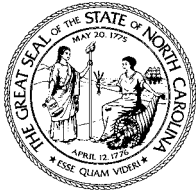
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 .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 \$2,417,235 at June 30, 2012.
- 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

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

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited the financial statements of North Carolina Central University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 2, 2013. 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 NCCU Real Estate Foundation, Inc. and the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

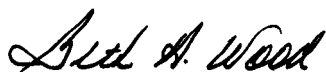
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination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

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

Compliance and Other Matters

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

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

January 2, 2013

ORDERING INFORMATION

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

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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

This audit required 1,312 audit hours at an approximate cost of \$94,464. The cost represents 0.027% of the University's total assets and 0.050% of total expenses subjected to audit.