



STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY

GREENSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Agricultural and Technical State University

We have completed a financial statement audit of North Carolina Agricultural and Technical State University for the year ended June 30, 2013, 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*.

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

Beth A. Wood, CPA
State Auditor

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2 S. Salisbury Street
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Internet
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The North Carolina A&T University Foundation, Inc. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the entity, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The North Carolina A&T University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Agricultural and Technical State University, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 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, and grant agreements and other matters. The purpose of that report is to describe the

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 11, 2013

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

North Carolina Agricultural and Technical State University provides the following discussion and analysis in order to give the reader a summary of its financial activities and to provide assistance in understanding the financial statements for the fiscal year ended June 30, 2013. Comparative data for the year ended June 30, 2012 is also included. All information provided has been prepared by University staff for the purpose of identifying significant transactions, trends and events that have had an impact on the fiscal health of the University and that may continue to exert influence in future years. It is suggested that this discussion and analysis be read in conjunction with the related financial statements and the accompanying footnotes for further explanation and details.

The Financial Statements

The financial statements for North Carolina Agricultural and Technical State University include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows.

These statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and reflect an economic resource measurement focus and the accrual basis of accounting. Management's discussion and analysis will concentrate on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position using condensed versions. Complete (full length) versions of each of the financial statements are presented as exhibits immediately following management's discussion and analysis.

Statement of Net Position

The Statement of Net Position summarizes and provides insight into the financial wellness of the University at June 30, 2013. It presents the financial position as defined by the balances of assets, liabilities and assets net of liabilities. Assets and liabilities are classified as current or noncurrent. Current assets and liabilities include those resources and obligations that pertain to current operating requirements while noncurrent assets and liabilities are held to meet future needs. Net position - assets net of liabilities - is grouped into three categories: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position is further classified as nonexpendable or expendable. Endowments and loan funds comprise the nonexpendable net position and expendable net position is made up primarily of contracts, grants, and restricted gifts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 52,729,910.28	\$ 51,057,124.57	\$ 1,672,785.71	3.28%
Noncurrent Capital Assets, Net of Accumulated Depreciation	321,842,428.59	325,316,403.41	(3,473,974.82)	-1.07%
Other Noncurrent Assets	<u>45,411,150.11</u>	<u>32,085,655.00</u>	<u>13,325,495.11</u>	41.53%
Total Assets	<u>419,983,488.98</u>	<u>408,459,182.98</u>	<u>11,524,306.00</u>	2.82%
Liabilities				
Current Liabilities	10,925,780.85	11,290,438.37	(364,657.52)	-3.23%
Noncurrent Liabilities	<u>33,687,355.59</u>	<u>23,178,787.54</u>	<u>10,508,568.05</u>	45.34%
Total Liabilities	<u>44,613,136.44</u>	<u>34,469,225.91</u>	<u>10,143,910.53</u>	29.43%
Net Position				
Net Invested in Capital Assets	308,006,803.94	310,894,259.52	(2,887,455.58)	-0.93%
Restricted-Nonexpendable	27,371,100.44	24,951,895.40	2,419,205.04	9.70%
Restricted-Expendable	13,533,187.68	9,631,603.52	3,901,584.16	40.51%
Unrestricted	<u>26,459,260.48</u>	<u>28,512,198.63</u>	<u>(2,052,938.15)</u>	-7.20%
Total Net Position	<u>\$ 375,370,352.54</u>	<u>\$ 373,989,957.07</u>	<u>\$ 1,380,395.47</u>	0.37%

While the overall change in the total of net position was less than one percent, there was considerable activity within several categories.

Current assets total \$52,729,910.28 with the major categories of cash and accounts receivable making up 71.46% and 25.05% of that total, respectively. Cash increased by \$636,092.51. The major factors that made up the change are:

- Cash held for capital improvement projects increased by \$2,838,222.46.
- Auxiliary cash in the amount of \$1,300,980.77 was used to fund capital improvement projects.
- Cash in restricted funds decreased by \$850,156.14. The decrease in restricted cash was primarily caused by the following: several Department of Defense grants held significant cash balances at June 30, 2012 that were decreased by \$485,898.43 due to grant expenditures; the National Science Foundation cash decreased by \$416,486.09, primarily due to the initiation of a new payment system that prevented the University from drawing down funds in June of 2013.
- Student accounts receivable increased by \$696,658.88, due to increases in tuition and fee rates as well as additional procedures for collecting past due accounts that resulted in the University retaining outstanding accounts for a longer period of time.
- The remainder of the increase in accounts receivable is due to an increase in federal grants, the result of a large receivable for the National Science Foundation funded Engineering Research Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent capital assets, net of accumulated depreciation, decreased by \$3,473,974.82. The depreciation expense of \$11,193,508.14 exceeded the net value of assets purchased and retired during the year, resulting in an overall decrease in net capital assets.

The substantial increase of \$13,325,495.11 in other noncurrent assets was due primarily to increases in cash and investments. The increase in cash of \$9,860,917.55 was made up of \$1,808,230.94 in endowment funds and \$8,021,238.38 in bond proceeds for the construction of a student health center. The endowment investment portfolio increased by \$3,110,121.38 as a result of market gains and gifts.

There was a net decrease in total current liabilities of \$364,657.52. The increase in accrued liabilities of \$1,067,615.81 was due largely to an increase of \$938,653.46 in liabilities for capital improvement projects primarily incurred for the construction of a new student health center and student union. The increase in accrued liabilities was off-set by the decrease in unearned revenue which decreased by \$1,418,035.99. Deferred revenue decreased from the prior year due primarily to the following: in the prior fiscal year, Department of Defense grants held more cash at year end resulting in a decrease of \$562,601.68 for the current fiscal year. Deferred revenue for USDA grants also decreased by \$574,270.94. In addition, deferred revenue decreased for private grants by \$286,817.99 as several grants neared completion.

Noncurrent liabilities increased by \$10,508,568.05 due to the issuance of \$10,210,000 of general revenue bonds to finance construction of the student health center.

Net position increased by \$1,380,395.47. The increase in nonexpendable net position of \$2,419,205.44 was the result of gifts in the endowment funds. Restricted expendable net position increased by \$3,901,584.16 due to increases from several sources. Endowment assets provided \$2,434,246.49 of the increase while capital improvement projects and contracts, grants, and gifts contributed \$170,657.34 and \$1,296,680.33, respectively. The increase in net position was offset by a decrease in net investment in capital assets of \$2,887,455.58. This occurred because depreciation expense of \$11,193,508.14 was greater than the amount of new assets capitalized during the year. Unrestricted net position decreased by \$2,052,938.15 which was the result of Auxiliary funds used to self-fund construction projects.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues (expenses), and other revenues, expenses, gains or losses. Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2013	2012	Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 49,980,989.82	\$ 45,034,536.54	\$ 4,946,453.28	10.98%
Grants and Contracts	24,135,680.39	24,394,230.70	(258,550.31)	-1.06%
Federal Appropriations	8,380,101.81	7,184,766.94	1,195,334.87	16.64%
Sales and Services	23,485,144.96	23,276,360.74	208,784.22	0.90%
Other Operating Revenues	1,857,757.83	1,662,244.14	195,513.69	11.76%
Total Operating Revenues	<u>107,839,674.81</u>	<u>101,552,139.06</u>	<u>6,287,535.75</u>	6.19%
Operating Expenses				
Salaries and Benefits	161,912,927.56	156,312,066.01	5,600,861.55	3.58%
Supplies and Materials	17,239,416.60	19,154,909.78	(1,915,493.18)	-10.00%
Services	42,842,908.12	42,379,508.71	463,399.41	1.09%
Scholarships and Fellowships	19,161,756.39	20,242,096.16	(1,080,339.77)	-5.34%
Utilities	5,319,557.56	5,249,842.22	69,715.34	1.33%
Depreciation	11,193,508.14	11,177,716.35	15,791.79	0.14%
Total Operating Expenses	<u>257,670,074.37</u>	<u>254,516,139.23</u>	<u>3,153,935.14</u>	1.24%
Operating Loss	<u>(149,830,399.56)</u>	<u>(152,964,000.17)</u>	<u>3,133,600.61</u>	-2.05%
Nonoperating Revenues (Expenses)				
State Appropriations	97,542,271.07	94,181,745.96	3,360,525.11	3.57%
Noncapital Grants and Gifts	47,646,879.84	73,549,749.75	(25,902,869.91)	-35.22%
Grant to Gateway University Research Park	0.00	(18,465,527.16)	18,465,527.16	-100.00%
Interest and Fees on Debt	(972,246.50)	(716,046.79)	(256,199.71)	35.78%
Other Nonoperating Expenses	(827,868.12)	(452,723.17)	(375,144.95)	82.86%
Other Nonoperating Revenues	3,406,047.83	1,275,540.08	2,130,507.75	167.03%
Net Nonoperating Revenues	<u>146,795,084.12</u>	<u>149,372,738.67</u>	<u>(2,577,654.55)</u>	-1.73%
Loss Before Other Revenues	<u>(3,035,315.44)</u>	<u>(3,591,261.50)</u>	<u>555,946.06</u>	-15.48%
Other Revenues				
Capital Appropriations and Grants	2,087,874.90	2,758,702.27	(670,827.37)	-24.32%
Capital Gifts		1,043,588.49	(1,043,588.49)	-100.00%
Additions to Permanent Endowments	2,327,836.01	2,682,330.34	(354,494.33)	-13.22%
Total Other Revenues	<u>4,415,710.91</u>	<u>6,484,621.10</u>	<u>(2,068,910.19)</u>	-31.90%
Total Increase in Net Asset	<u>1,380,395.47</u>	<u>2,893,359.60</u>	<u>(1,512,964.13)</u>	-52.29%
Net Position - Beginning of the Year	<u>373,989,957.07</u>	<u>371,096,597.47</u>	<u>2,893,359.60</u>	0.78%
Net Position - End of the year	<u>\$ 375,370,352.54</u>	<u>\$ 373,989,957.07</u>	<u>\$ 1,380,395.47</u>	0.37%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Revenues, Expenses, and Changes in Net Position reflects an overall increase in net position at year-end of \$1,380,395.47. Highlights of the significant changes are as follows:

- Operating revenues increased in total by \$6,287,535.75. Tuition and fees increased by \$4,946,453.28, or 10.98%, due to an increase in tuition and fee rates. The balance of the increase in operating revenues was due to changes in other operating revenue accounts.
- Total operating expenses increased by \$3,153,935.14. Salaries and benefits increased by \$5,600,861.56 due to a legislative increase of 1.2% for all full and part-time permanent employees as well as increases in employer contributions to FICA and State benefits. Supplies and materials decreased by \$1,915,493.18 as the University continued its efforts to reduce operating costs and streamline expenses. Scholarships and fellowships are presented net of a scholarship discount. The discount in fiscal 2013 increased over the prior year by \$1,665,463.70, resulting in a decrease in expenditures for scholarships and fellowships.
- The University experienced a decrease in net nonoperating revenue of \$2,577,654.55. There was a decrease in noncapital grants and gifts of \$25,902,869.91. Of that total, \$20,819,341.21 was due to the completion of the Nanoengineering facility, constructed by Gateway University Research, Inc. With the completion of the Nanoengineering facility, a grant to Gateway University Research Park, Inc. was not required in 2013, resulting in a decrease of \$18,465,527.00 in nonoperating expenditures. The reduction in nonoperating revenue was further offset by an increase in appropriations from the State in the amount of \$3,360,525.11. In addition, due to positive market conditions during the year, investment income from endowments grew to \$3,406,047.83, an increase of \$2,130,507.75.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Personnel services accounted for 62.84% of operating expenses, followed by services at 16.63%, scholarships at 7.44%, supplies and materials at 6.69%, depreciation at 4.34%, and utility costs at 2.06%.

Capital Assets and Debt Administration

On December 1, 2012, the University issued \$10,210,000.00 of general revenue bonds, Series 2013, for the purpose of building a 27,548 square foot facility to house a new student health center. The student health center is scheduled for completion in July of 2014. In addition, design development began on plans for a new student center, which is scheduled for completion in February 2017.

Long-term revenue bond debt totaled \$23,585,000.00 at June 30, 2013. The net increase of \$9,180,000.00, resulted from the issuance of net of bond additions of \$10,210,000.00 and retirements of \$1,030,000.00.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Future Outlook

State support in fiscal year 2013 increased by \$3,812,225.11 or approximately 4.05%. Even though current national and statewide economic events continue to adversely impact state revenues, University management believes that enrollment growth, increased research activity, and fundraising efforts will help provide the resources necessary to maintain and enhance academic programs and campus life experience.

Through donations and market appreciation, the University endowment fund grew from \$28,041,145.80 to \$32,959,498.12, an increase of \$4,918,352.32 or 17.54%. The endowment board closely monitors endowment investments, evaluating the effectiveness of fund managers and asset allocation. The University has placed a high priority on continued donor outreach and investment growth through asset management.

The University continues to leverage academic and community programs through partnerships with educational and community organizations. Several new partnerships with North Carolina community colleges were established during the year:

- Launching a Cyber Security Research Partnership with Guilford Technical Community College.
- Working with Randolph Community College to offer an undergraduate degree in electronics technology through the University Center of Randolph County.
- Partnering with Vance-Granville Community College (VGCC) in a program that will allow VGCC associate degree nursing graduates to transition into the four year nursing program at the University.
- Establishing a partnership with Guilford Technical Community College that will give GTCC students an opportunity to apply for joint admission to the University's College of Engineering.

The working relationship that the University has fostered with local community colleges has provided the public with excellent and affordable educational opportunities in an efficient and cost effective manner.

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

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

North Carolina Agricultural and Technical State University
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 26,806,059.76
Restricted Cash and Cash Equivalents	10,873,347.83
Restricted Short-Term Investments	90,914.00
Receivables, Net (Note 4)	13,206,596.52
Due from University Component Units	101,958.81
Inventories	1,440,179.13
Notes Receivable	210,854.23
	<hr/>
Total Current Assets	52,729,910.28

Noncurrent Assets:

Restricted Cash and Cash Equivalents	13,865,698.20
Receivables	330,000.00
Restricted Due from Primary Government	6,033.69
Endowment Investments	30,362,558.49
Restricted Investments	1,835.69
Notes Receivable, Net (Note 4)	845,024.04
Capital Assets - Nondepreciable (Note 5)	19,052,678.93
Capital Assets - Depreciable, Net (Note 5)	302,789,749.66
	<hr/>
Total Noncurrent Assets	367,253,578.70
	<hr/>
Total Assets	419,983,488.98

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<hr/> 0.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	6,048,755.79
Due to Primary Government	51,353.08
Unearned Revenue	3,032,266.53
Interest Payable	238,698.45
Long-Term Liabilities - Current Portion (Note 7)	1,554,707.00
	<hr/>
Total Current Liabilities	10,925,780.85

Noncurrent Liabilities:

Funds Held for Others	180,581.27
U. S. Government Grants Refundable	1,050,598.23
Long-Term Liabilities (Note 7)	32,456,176.09
	<hr/>
Total Noncurrent Liabilities	33,687,355.59
	<hr/>
Total Liabilities	44,613,136.44

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<hr/> 0.00
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North Carolina Agricultural and Technical State University
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 2 of 2

Net Investment in Capital Assets	308,006,803.94
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	15,271,062.72
Endowed Professorships	11,282,056.18
Departmental Uses	575,252.12
Loans	242,729.42
Expendable:	
Scholarships and Fellowships	4,726,769.39
Research	132,576.43
Endowed Professorships	3,214,752.24
Departmental Uses	4,431,365.81
Capital Projects	1,027,723.81
Unrestricted	<u>26,459,260.48</u>
Total Net Position	<u>\$ 375,370,352.54</u>

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

North Carolina Agricultural and Technical State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 49,980,989.82
Federal Appropriations	8,380,101.81
Federal Grants and Contracts	20,959,663.89
State and Local Grants and Contracts	1,874,582.49
Nongovernmental Grants and Contracts	1,301,434.01
Sales and Services, Net (Note 9)	23,485,144.96
Interest Earnings on Loans	4,184.40
Other Operating Revenues	1,853,573.43
	<hr/>
Total Operating Revenues	107,839,674.81

EXPENSES

Operating Expenses:

Salaries and Benefits	161,912,927.56
Supplies and Materials	17,239,416.60
Services	42,842,908.12
Scholarships and Fellowships	19,161,756.39
Utilities	5,319,557.56
Depreciation	11,193,508.14
	<hr/>
Total Operating Expenses	257,670,074.37
	<hr/>
Operating Loss	(149,830,399.56)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	97,542,271.07
Noncapital Grants - Student Financial Aid	35,683,112.14
Noncapital Gifts	10,052,390.00
Investment Income	1,911,377.70
Interest and Fees on Debt	3,406,047.83
Federal Interest Subsidy on Debt	(972,246.50)
Other Nonoperating Expenses	(827,868.12)
	<hr/>
Net Nonoperating Revenues	146,795,084.12
	<hr/>
Loss Before Other Revenues	(3,035,315.44)
	<hr/>
Capital Appropriations	451,700.00
Capital Grants	1,636,174.90
Additions to Endowments	2,327,836.01
	<hr/>
Increase in Net Position	1,380,395.47

NET POSITION

Net Position - July 1, 2012	<hr/> 373,989,957.07
Net Position - June 30, 2013	<hr/> \$ 375,370,352.54

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 103,018,478.05
Payments to Employees and Fringe Benefits	(161,609,047.02)
Payments to Vendors and Suppliers	(64,401,738.22)
Payments for Scholarships and Fellowships	(19,154,059.73)
Loans Issued	(217,443.00)
Collection of Loans	197,223.67
Interest Earned on Loans	4,184.40
Other Receipts	2,078,877.32
	<hr/>
Net Cash Used by Operating Activities	(140,083,524.53)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	97,542,271.07
Noncapital Grants - Student Financial Aid	35,646,303.08
Noncapital Grants	9,990,898.57
Noncapital Gifts	1,188,573.70
Additions to Endowments	2,327,836.01
William D. Ford Direct Lending Receipts	75,077,960.00
William D. Ford Direct Lending Disbursements	(75,077,960.00)
Related Activity Agency Receipts	64,973.24
Related Activity Agency Disbursements	(33,016.23)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	146,727,839.44

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	11,019,939.20
State Capital Appropriations	451,700.00
Capital Grants	1,636,174.90
Acquisition and Construction of Capital Assets	(7,623,885.28)
Principal Paid on Capital Debt	(1,030,000.00)
Interest and Fees Paid on Capital Debt	(896,499.18)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	3,557,429.64

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	91,111.69
Investment Income	675,570.77
Purchase of Investments and Related Fees	(471,416.95)
	<hr/>
Net Cash Provided by Investing Activities	295,265.51
	<hr/>
Net Increase in Cash and Cash Equivalents	10,497,010.06
Cash and Cash Equivalents - July 1, 2012	41,048,095.73
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 51,545,105.79

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3

Page 2 of 2

**RECONCILIATION OF NET OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (149,830,399.56)
Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:	
Depreciation	11,193,508.14
Allowances and Write-Offs	47,567.98
Nonoperating Other Income	124,054.00
Changes in Assets and Liabilities:	
Receivables (Net)	(1,072,585.39)
U.S Grants Refundable	(13,313.69)
Due from University Component Units	(47,389.81)
Inventories	331,884.97
Notes Receivable (Net)	(20,219.33)
Accounts Payable and Accrued Liabilities	144,181.29
Due to Primary Government	(8,729.97)
Unearned Revenue	(1,343,232.36)
Compensated Absences	411,149.20
	<u>411,149.20</u>
Net Cash Used by Operating Activities	<u>\$ (140,083,524.53)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 26,806,059.76
Restricted Cash and Cash Equivalents	10,873,347.83
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>13,865,698.20</u>
Total Cash and Cash Equivalents - June 30, 2013	<u>\$ 51,545,105.79</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 2,730,477.06
Reinvested Distributions	471,416.95
Loss on Disposal of Capital Assets	827,868.12
Amortization of Bond Premiums	12,273.00

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

The North Carolina A&T University Foundation, Inc.
Statement of Financial Position
June 30, 2013

Exhibit B-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 2,816,073
Investments	8,226,206
Unconditional Promises to Give	1,018,422
Accounts Receivable-NCA&TSU	54,761
Other Current Assets	<u>419,209</u>
Total Current Assets	<u>12,534,671</u>
Restricted Deposits:	
Bond Operating Reserve Fund	500,000
Bond Interest Fund	3,000
Bond Surplus Fund	1,534,359
Bond Repair and Replacement Fund	101,870
Bond Debt Service Fund	3,126,201
Bond QEA Fund	<u>33,000</u>
Total Restricted Deposits	<u>5,298,430</u>
Endowment Investments	4,355,508
Property, Furniture and Equipment, at Cost, Net	32,307,308
Long-Term Unconditional Promises to Give	1,586,860
Other Assets	<u>3,206,220</u>
Total Assets	<u>\$ 59,288,997</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Current Maturities of Bonds Payable	\$ 1,310,000
Accounts Payable	312,480
Other Liabilities	<u>440,748</u>
Total Current Liabilities	<u>2,063,228</u>
Long-Term Liabilities:	
Bonds Payable Less Current Maturities	<u>39,490,000</u>
Total Liabilities	<u>41,553,228</u>

NET ASSETS

Unrestricted	
Operating	4,270,742
Fixed Assets	<u>98,592</u>
Total Unrestricted	4,369,334
Temporarily Restricted	8,988,644
Permanently Restricted	<u>4,377,791</u>
Total Net Assets	<u>17,735,769</u>
Total Liabilities and Net Assets	<u>\$ 59,288,997</u>

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

The North Carolina A&T University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenues and Reclassifications				
Contributions:				
Foundations & Corporations	\$ 3,934	\$ 3,659,963	\$ 84,824	\$ 3,748,721
Board of Directors	9,000	3,600	5,675	18,275
Individuals/Friends	14,802	1,818,595	116,545	1,949,942
Interest and Dividends	268,250	117,970	108,011	494,231
Administrative Fees	132,793			132,793
Miscellaneous	-	191,466		191,466
Unrealized Gain from Investments	476,821	394,088		870,909
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	1,804,249	(1,804,249)		
Rental Income	7,377,201			7,377,201
Management Fees	318,860			318,860
Fundraising	252,485			252,485
Total Public Support, Revenues and Reclassifications	<u>10,658,395</u>	<u>4,381,433</u>	<u>315,055</u>	<u>15,354,883</u>
Scholarships and Expenses				
Scholarships:				
Scholarships-Unrestricted	219,356			219,356
Scholarships-Departmental	511,576			511,576
Total Scholarships	<u>730,932</u>			<u>730,932</u>
Expenses				
Academic Departmental Programs	1,292,673			1,292,673
Administration	1,077,096			1,077,096
Student Housing	5,534,410			5,534,410
Transfer to NCA&TSU and Promises to Give Write-offs			8,000	8,000
Total Expenses	<u>8,635,111</u>		<u>8,000</u>	<u>8,643,111</u>
Changes in Net Assets	<u>2,023,284</u>	<u>4,381,433</u>	<u>307,055</u>	<u>6,711,772</u>
Net Assets as of Beginning of Year	<u>2,346,050</u>	<u>4,607,211</u>	<u>4,070,736</u>	<u>11,023,997</u>
Net Assets as of End of Year	<u>\$ 4,369,334</u>	<u>\$ 8,988,644</u>	<u>\$ 4,377,791</u>	<u>\$ 17,735,769</u>

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

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NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2013, the Foundation distributed \$1,673,126.53 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from 200 North Benbow Road, Greensboro, NC 27411. The mailing address is P. O. Box 20366, Greensboro, NC 27420.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

- 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, and deposits held by the State

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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 and compensated absences that will not be paid within the next fiscal year.

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

- K. **Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 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 Position** - The University's net position is classified as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Net Investment in Capital Assets - 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 Net Investment in Capital Assets.

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

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

Unrestricted Net Position - Unrestricted net position includes 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 Position. 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 Position. 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 Position. Operating revenues and expenses generally result from providing services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as bookstore sales, student newspaper advertisements, and the University One Card administrative fees. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis including the motor pool and utilities. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$51,492,169.24 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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, 2013 was \$34,635.97. The carrying amount of the University's deposits not with the State Treasurer, was \$18,300.58 and the bank balance was \$17,386.03. 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, 2013, the University's bank balance was not exposed to custodial credit risk.

B. Investments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal. G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of the University's component unit, The North Carolina A&T University Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the Long-Term Investment Pool.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	6 to 10
Debt Securities			
Debt Mutual Funds	\$ 2,569,102.40	\$ 0.00	\$ 2,569,102.40
Money Market Mutual Funds	38,119.98	38,119.98	
	<u>2,607,222.38</u>	<u>\$ 38,119.98</u>	<u>\$ 2,569,102.40</u>
Total Debt Securities			
Other Securities			
UNC Investment Fund	19,442,040.63		
Equity Mutual Funds	8,301,605.48		
Investments in Real Estate	11,690.00		
	<u>19,442,040.63</u>		
Total Long-Term Investment Pool	<u>\$ 30,362,558.49</u>		

At June 30, 2013, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	Unrated
Debt Mutual Funds	\$ 2,569,102.40	\$ 2,569,102.40	\$ 0.00
Money Market Mutual Funds	38,119.98		38,119.98
	<u>2,569,102.40</u>	<u>2,569,102.40</u>	<u>38,119.98</u>
Totals	<u>\$ 2,607,222.38</u>	<u>\$ 2,569,102.40</u>	<u>\$ 38,119.98</u>

Rating Agency: Morningstar

UNC Investment Fund, LLC - At June 30, 2013, the University's investments include \$19,442,040.63 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 – At year end, the University held domestic stock with a fair value of \$1,835.69 and an insurance policy with a cash surrender value of \$90,914.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments - The following table presents the fair value of the total investments at June 30, 2013:

Investment Type	<u>Fair Value</u>
Debt Securities	
Debt Mutual Funds	\$ 2,569,102.40
Money Market Mutual Funds	38,119.98
Other Securities	
UNC Investment Fund	19,442,040.63
Equity Mutual Funds	8,301,605.48
Investments in Real Estate	11,690.00
Domestic Stocks	1,835.69
Other - Insurance Policy Surrender Value	90,914.00
Total Investments	<u><u>\$ 30,455,308.18</u></u>

Component Unit - Investments of the University's discretely presented component unit, The North Carolina A&T University 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 Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The Foundation's investments include mutual funds administered by Charles Schwab in the amount of \$12,570,863 and stock in the amount of \$10,851. The total amount of investments for The North Carolina A&T University Foundation, Inc. is \$12,581,714.

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, 2013, is as follows:

Cash on Hand	\$	34,635.97
Amount of Deposits with Private Financial Institutions		18,300.58
Deposits in the Short-Term Investment Fund		51,492,169.24
Long-Term Investment Pool		30,362,558.49
Non-Pooled Investments		92,749.69
Total Deposits and Investments	\$	82,000,413.97
Deposits		
Current:		
Cash and Cash Equivalents	\$	26,806,059.76
Restricted Cash and Cash Equivalents		10,873,347.83
Noncurrent:		
Restricted Cash and Cash Equivalents		13,865,698.20
Total Deposits		51,545,105.79
Investments		
Current:		
Restricted Short-Term Investments		90,914.00
Noncurrent:		
Endowment Investments		30,362,558.49
Restricted Investments		1,835.69
Total Investments		30,455,308.18
Total Deposits and Investments	\$	82,000,413.97

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to not more than 5% of the endowment's average market value at December 31st for the prior three years. To the extent that the total return for the current year exceeds the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2013, net appreciation of \$5,831,127.10 was available to be spent, of which \$4,945,249.41 was classified in net position as restricted expendable for scholarships, professorships, and departmental uses as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,577,368.47	\$ 467,220.48	\$ 1,110,147.99
Accounts	478,109.58	76,118.94	401,990.64
Intergovernmental	10,782,254.54		10,782,254.54
Pledges	360,668.44		360,668.44
Interest on Loans	163,723.67		163,723.67
Other	387,811.24		387,811.24
	<u>\$ 13,749,935.94</u>	<u>\$ 543,339.42</u>	<u>\$ 13,206,596.52</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,466,062.67</u>	<u>\$ 621,038.63</u>	<u>\$ 845,024.04</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	\$ 10,003,073.32	\$ 0.00	\$ 0.00	\$ 10,003,073.32
Art, Literature, and Artifacts	2,490,797.00			2,490,797.00
Construction in Progress	1,463,212.10	5,095,596.51		6,558,808.61
Total Capital Assets, Nondepreciable	<u>13,957,082.42</u>	<u>5,095,596.51</u>		<u>19,052,678.93</u>
Capital Assets, Depreciable:				
Buildings	355,931,581.43	513,588.20		356,445,169.63
Machinery and Equipment	57,337,609.91	2,875,354.33	2,627,988.69	57,584,975.55
General Infrastructure	19,047,083.39	62,862.40		19,109,945.79
Total Capital Assets, Depreciable	<u>432,316,274.73</u>	<u>3,451,804.93</u>	<u>2,627,988.69</u>	<u>433,140,090.97</u>
Less Accumulated Depreciation for:				
Buildings	89,021,277.54	7,233,716.63		96,254,994.17
Machinery and Equipment	26,500,888.04	3,331,763.15	1,800,120.57	28,032,530.62
General Infrastructure	5,434,788.16	628,028.36		6,062,816.52
Total Accumulated Depreciation	<u>120,956,953.74</u>	<u>11,193,508.14</u>	<u>1,800,120.57</u>	<u>130,350,341.31</u>
Total Capital Assets, Depreciable, Net	<u>311,359,320.99</u>	<u>(7,741,703.21)</u>	<u>827,868.12</u>	<u>302,789,749.66</u>
Capital Assets, Net	<u>\$ 325,316,403.41</u>	<u>\$ (2,646,106.70)</u>	<u>\$ 827,868.12</u>	<u>\$ 321,842,428.59</u>

During the year ended June 30, 2013, the University incurred \$88,713.43 in interest costs related to the acquisition and construction of capital assets. The amount of interest subject to capitalization was minimal, and therefore, it was expensed in the current year.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 5,046,525.88
Accrued Payroll	694,260.77
Contract Retainage	126,358.12
Intergovernmental Payables	181,611.02
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 6,048,755.79</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 14,405,000.00	\$ 10,210,000.00	\$ 1,030,000.00	\$ 23,585,000.00	\$ 1,095,000.00
Add Premium	288,288.96	809,939.20	53,051.52	1,045,176.64	
Deduct Unamortized Cost on Refunding	(271,145.07)		(40,778.52)	(230,366.55)	
Total Revenue Bonds	14,422,143.89	11,019,939.20	1,042,273.00	24,399,810.09	1,095,000.00
Compensated Absences	9,199,923.80	7,809,527.00	7,398,377.80	9,611,073.00	459,707.00
Total Long-Term Liabilities	\$ 23,622,067.69	\$ 18,829,466.20	\$ 8,440,650.80	\$ 34,010,883.09	\$ 1,554,707.00

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, 2013	Principal Outstanding June 30, 2013
Revenue Bonds Payable						
The University of North Carolina Revenue Bonds						
Student Health Center	2013	2.00-5.00	10/01/2037	\$ 10,210,000.00	\$ 0.00	\$ 10,210,000.00
The University of North Carolina System Pool Revenue Bonds						
Parking System	(A)	3.75-5.00	10/01/2033	5,965,000.00	600,000.00	5,365,000.00
Dining System	(A)	3.75-5.00	10/01/2020	7,525,000.00	2,715,000.00	4,810,000.00
Stadium System	(B)	2.00-4.50	10/01/2031	3,365,000.00	295,000.00	3,070,000.00
Parking System	(B)	2.00	10/01/2013	260,000.00	130,000.00	130,000.00
Total The University of North Carolina System Pool Revenue Bonds				17,115,000.00	3,740,000.00	13,375,000.00
Total Revenue Bonds Payable				\$ 27,325,000.00	\$ 3,740,000.00	23,585,000.00
Less: Unamortized Cost on Refunding						(230,366.55)
Plus: Unamortized Premium						1,045,176.64
Total Revenue Bonds Payable						\$ 24,399,810.09

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

(B) The University of North Carolina System Pool Revenue Bonds,
Series 2011C

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Revenue Bonds Payable	
	Principal	Interest
2014	\$ 1,095,000.00	\$ 937,393.78
2015	990,000.00	903,193.78
2016	1,035,000.00	868,831.28
2017	1,075,000.00	831,593.78
2018	1,125,000.00	793,500.03
2019-2023	5,125,000.00	3,293,581.37
2024-2028	4,130,000.00	2,488,609.41
2029-2033	5,450,000.00	1,513,437.50
2034-2038	3,560,000.00	409,775.00
Total Requirements	\$ 23,585,000.00	\$ 12,039,915.93

- D. Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2013, the outstanding balance of prior year defeased bonds was \$510,000.00.

- E. Component Unit** - At June 30, 2013 The North Carolina A&T University Foundation, Inc. had \$40,800,000.00 of outstanding bonds payable. These bonds, Series 2004A and Series 2004B, were issued on August 10, 2004, for \$29,250,000 and \$21,000,000 respectively. The 2004A Bonds were issued primarily to refund the Foundation's outstanding 2001 Bonds. The 2004B Bonds were issued primarily to finance the construction, equipping and installation of student housing, a fitness facility and a conference and special events facility.

The net proceeds of \$48,637,339 (net of payment of interest and principal outstanding of \$373,739 on the 2001 Bonds, and payment of \$3,262,904 in underwriting fees, insurance, and other issuance costs) were used to purchase federal securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 Bonds. As a result, the 2001 Bonds are considered to be defeased and the liability for those bonds has been removed from the Foundation's long-term debt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Series 2004A and 2004B Bonds consisted of \$50,250,000 of serial bonds issued at interest rates ranging from 3% to 5%, maturing in progressively larger annual amounts ranging from \$600,000 on June 1, 2005 to \$1,170,000 on June 1, 2035. Semi-annual interest payments on the Series 2004A and 2004B Bonds are due December 1 and June 1, and annual principal payments are due June 1.

A summary of the maturities of the bonds payable at June 30, 2013 is detailed as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2014	\$ 1,310,000
2015	1,360,000
2016	1,415,000
2017	1,475,000
2018	1,535,000
Thereafter	<u>33,705,000</u>
	<u>\$ 40,800,000</u>

Interest expense at June 30, 2013 amounted to \$1,521,761.

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 315,730.71
2015	40,302.92
2016	<u>7,098.20</u>
Total Minimum Lease Payments	<u>\$ 363,131.83</u>

Rental expense for all operating leases during the year was \$751,001.76.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 75,110,884.64	\$ 0.00	\$ 24,793,989.09	\$ 335,905.73	\$ 49,980,989.82
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 10,137,599.64	\$ 0.00	\$ 3,100,511.48	\$ 71,385.10	\$ 6,965,703.06
Dining	11,804,680.05		3,715,472.26	84,569.72	8,004,638.07
Student Union Services	29,661.10				29,661.10
Health, Physical Education, and Recreation Services	283,399.88				283,399.88
Bookstore	4,804,492.18	74,198.56		45,572.69	4,684,720.93
Parking	1,331,020.90			(4,345.97)	1,335,366.87
Athletic	1,642,006.39				1,642,006.39
Other	171,147.36				171,147.36
Sales and Services of Education and Related Activities	2,462,936.49	2,094,435.19			368,501.30
Total Sales and Services	\$ 32,666,943.99	\$ 2,168,633.75	\$ 6,815,983.74	\$ 197,181.54	\$ 23,485,144.96

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 72,982,645.02	\$ 2,182,688.06	\$ 2,143,376.80	\$ 651,774.28	\$ 216.13	\$ 0.00	\$ 77,960,700.29
Research	20,033,427.11	2,172,047.88	6,537,943.47	1,702,890.21			30,446,308.67
Public Service	3,271,697.85	456,203.00	1,822,629.81	134,999.15			5,685,529.81
Academic Support	13,844,495.76	4,483,559.11	4,624,947.04	617,053.00			23,570,054.91
Student Services	6,077,949.60	149,218.88	1,555,882.76	4,518.80			7,787,570.04
Institutional Support	19,408,508.98	972,794.59	5,312,996.92	154,731.33	3,360.74		25,852,392.56
Operations and Maintenance of Plant	10,035,580.63	732,487.42	2,336,557.55		3,733,853.67		16,838,479.27
Student Financial Aid	284,251.13	49,704.78	80,148.11	12,637,392.60			13,051,496.62
Auxiliary Enterprises	15,974,371.48	6,040,712.88	18,428,425.66	3,258,397.02	1,582,127.02		45,284,034.06
Depreciation						11,193,508.14	11,193,508.14
Total Operating Expenses	\$ 161,912,927.56	\$ 17,239,416.60	\$ 42,842,908.12	\$ 19,161,756.39	\$ 5,319,557.56	\$ 11,193,508.14	\$ 257,670,074.37

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) 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. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$126,966,394.95, of which \$66,743,118.20 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$5,559,701.75 and \$4,004,587.09, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$5,559,701.75, \$4,988,312.34, and \$3,566,826.96, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Administrators and eligible faculty of the University may join the Program instead of the TSERS. 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, 2013, 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 \$126,966,394.95, of which \$40,284,342.29 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,755,449.01 and \$2,417,060.54, respectively.

The Federal Retirement System is a multiple-employer system, University extension employees participate in the Civil Service Retirement System (CSRS) a program for participants employed prior to January 1, 1987. Participants contributed 7% of their salary to CSRS and the University match was 7%. For the year ended June 30, 2013, covered payroll was \$395,291.43, and total employer and employee contributions were \$27,670.40 each.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$329,313.63 for the year ended June 30, 2013.

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, 2013, were \$60,522.39. The voluntary contributions by employees amounted to \$575,649.15 for the year ended June 30, 2013.

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 \$1,064,303.42 for the year ended June 30, 2013.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

For the current fiscal year the University contributed 5.30% 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, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$5,672,455.41, \$5,259,208.44, and \$5,260,358.30, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the University made a statutory contribution of .44% 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, 2012, and 2011, were .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$470,920.83, \$546,957.68, and \$558,242.11, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

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.

Receipts-supported auxiliary units purchased extended or broad form coverage through the Fund. The University purchased \$2,425,000 in broad form coverage on the contents of the bookstore and extended coverage for both the building and contents for the student union and cafeteria in the amount of \$21,358,666 and \$26,126,967, respectively. Broad form coverage on buildings

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and contents totaled \$158,479,856 for residence halls, \$2,426,026 for the hazardous materials facility, and \$7,572,602 for campus recreation buildings. All risk insurance in the amount of \$4,380,021 was purchased for certain equipment located in Paul Robeson Theater, the research center in Kannapolis, the Bryan Fitness and Wellness Center, and the motor sport program. Losses covered for each of these buildings is subject to a \$5,000 deductible per occurrence.

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.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$11,448,501.37 and on other purchases were \$7,822,602.29 at June 30, 2013.
- B. Pending Litigation and Claims** - The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Pledges to Endowments	\$ 2,038,347.84

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

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

We have audited, in accordance with the 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, the financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 11, 2013. Our report includes a reference to other auditors who audited the financial statements of The North Carolina A&T University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of The North Carolina A&T University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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,

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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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 11, 2013

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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State of North Carolina
2 South Salisbury Street
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Raleigh, North Carolina 27699-0601

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For additional information contact:

Bill Holmes

Director of External Affairs