

# STATE OF NORTH CAROLINA

**NORTH CAROLINA CENTRAL UNIVERSITY**

**DURHAM, 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 CENTRAL UNIVERSITY**

**DURHAM, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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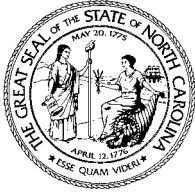
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Beth A. Wood, CPA  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, North Carolina Central University

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

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

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

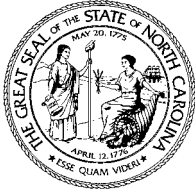
Beth A. Wood, CPA  
State Auditor

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# Office of the State Auditor



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State Auditor

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## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
North Carolina Central University  
Durham, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Central University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 NCCU Real Estate Foundation, Inc., which represent 6 percent and 1 percent, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, 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 NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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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 reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Central University and its discretely presented component unit, 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 February 10, 2014 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,

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

February 10, 2014

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## NORTH CAROLINA CENTRAL UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### **Brief Institutional Highlights**

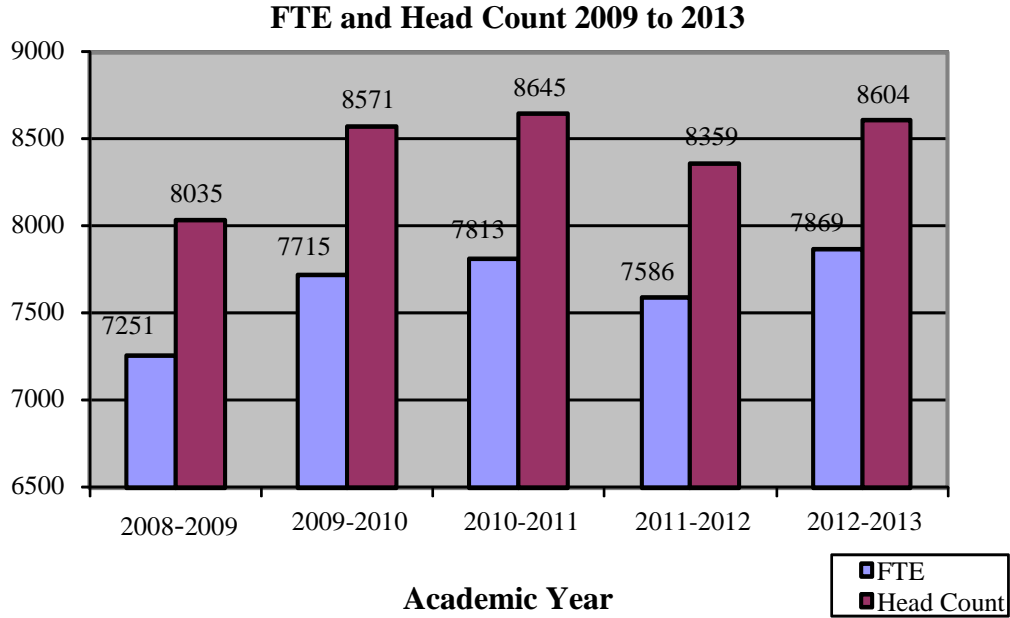
North Carolina Central University continues to be recognized as a first choice institution. The University remained on *US News & World Report's* 2014 list of Historically Black Colleges and Universities (HBCUs); placing 12th among over 80 HBCUs. Victory Media, a company that serves military personnel transitioning into civilian life recognized the University as a "military-friendly" institution, an honor accorded the top 20 percent of colleges, universities and trade schools that are the most supportive of military service members and their families. The University's student-led newspaper *Campus Echo* continued its tradition of award-winning journalism during the year, winning 11 total awards, including Best Student Newspaper (non-regular production), at the National HBCU Student News Media Conference. The *Campus Echo* also received four Mark of Excellence Awards from the Society of Professional Journalists-Region 2.

Adjusted state appropriations were \$84.7 million for fiscal year 2013, which was a \$1.1 million increase from fiscal year 2012. The total University budget, including receipts, for fiscal year 2013 was \$129.6 million as compared to \$129.1 million in 2012, a less than 1% increase. The increase in the University's total budget was primarily the result of a small increase in the number of students enrolled over the prior year.

The Office of Institutional Advancement continued raising the awareness of the importance of giving during the year. During the fiscal year, the Office of Institutional Advancement generated \$3.3 million in total fundraising, which includes pledges and other gifts of \$0.4 million.

During the past academic year, the University's total enrollment increased by 245. In addition to an increase in the number of new students admitted to the University, there was a 3.8% improvement in the undergraduate retention rate. The retention rate increase is reflective of the University's well-prepared and talented enrollees, resulting from its higher enrollment standards implemented over the past several years.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**



**Condensed Statement of Net Position**

	2013	2012
<b>Assets</b>		
Current Assets	\$ 35,771,134	\$ 33,453,604
Capital Assets, Net	289,282,336	295,840,633
Other Noncurrent Assets	25,687,809	23,675,606
<b>Total Assets</b>	<b>350,741,279</b>	<b>352,969,843</b>
Deferred Outflows of Resources	1,106,309	1,652,301
<b>Liabilities</b>		
Current Liabilities	13,173,616	17,213,503
Noncurrent Liabilities	96,076,692	100,085,273
<b>Total Liabilities</b>	<b>109,250,308</b>	<b>117,298,776</b>
<b>Net Position</b>		
Net Investment in Capital Assets	210,409,614	210,169,566
Restricted - Nonexpendable	15,084,853	14,567,297
Restricted - Expendable	13,275,755	10,419,677
Unrestricted	3,827,058	2,166,828
<b>Total Net Position</b>	<b>\$ 242,597,280</b>	<b>\$ 237,323,368</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Financial Highlights

The Statement of Net Position reports all assets and liabilities of the University; additionally, the statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer. This statement also reports the net position, which is the difference between the total assets and total liabilities. The reader may use the net position to gauge the financial position of the University as of June 30, 2013.

As of June 30, 2013, the University's total assets were \$350.7 million as compared to \$353 million in the prior year, a decrease of \$2.2 million. The change in assets reflects a decrease of \$6.6 million in net capital assets and an increase in current and other assets of \$4.3 million. The decrease in net capital assets resulted from an increase of \$1.9 million in capital assets, net of an \$8.5 million increase in accumulated depreciation. The most notable changes in current and other assets include an increase in cash of \$5.4 million. A significant portion of that increase (\$3.2 million) is attributable to a correlating decrease in receivables as of the end of the year. Largely due to an upswing in the securities market, the market value of endowment investments increased by \$2.8 million during the year.

The University's liabilities totaled \$109.2 million at June 30, 2013 and \$117.3 million at June 30, 2012. The June 30, 2013 balance consisted primarily of the debt service on the UNC System Pool Revenue Bonds, Series 2009C (\$57.2 million) and student housing bonds (\$24.1 million). The decrease in liabilities from 2012 to 2013 of \$8 million was largely due to the University paying their capital debt obligations of \$3.6 million and a decrease in capital related payables of \$2.5 million due to completion of projects before year end. See Note 7 of the Notes to the Financial Statements for more information about debt administration.

The total current liabilities of \$13.2 million were covered 2.7 times by current assets of \$35.7 million, which indicates the University's ability to pay current liabilities as they become due.

As of June 30, 2013, the University's net position was \$242.6 million, which is an increase of \$5.3 million, or 2.2% from the prior year. The University experienced flat growth in both operating and nonoperating income and expenses, resulting in a small increase in income before other revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2013	2012
Operating Revenues		
Student Tuition and Fees, Net	\$ 39,813,206	\$ 39,324,084
Contracts and Grants	8,418,350	9,611,933
Sales and Services, Net	23,386,964	21,987,692
Other Operating Revenues	1,020,155	875,066
Total Operating Revenues	72,638,675	71,798,775
Operating Expenses		
Salaries and Benefits	118,558,009	119,577,442
Supplies and Materials	11,142,601	11,391,435
Services	29,299,646	28,873,406
Scholarships and Fellowships	13,069,080	12,894,740
Utilities	5,177,778	4,657,048
Depreciation	8,639,183	8,276,930
Operating Expenses	185,886,297	185,671,001
Operating Loss	(113,247,622)	(113,872,226)
Nonoperating Revenues and Expenses		
State Appropriations	84,714,668	83,576,154
Noncapital Grants	32,122,703	35,587,983
Noncapital Gifts	14,931	181,523
Investment Income, Net	2,756,662	622,709
Other Nonoperating Expenses	(4,104,549)	(3,607,839)
Income Before Other Revenues	2,256,793	2,488,304
State Capital Appropriations	305,900	
Capital Grants	2,211,219	6,687,700
Capital Gifts		3,800
Additions to Endowments	500,000	750,000
Total Other Revenues	3,017,119	7,441,500
Increase in Net Position	5,273,912	9,929,804
Net Position - Beginning of Year	237,323,368	227,393,564
Net Position - End of Year	\$ 242,597,280	\$ 237,323,368

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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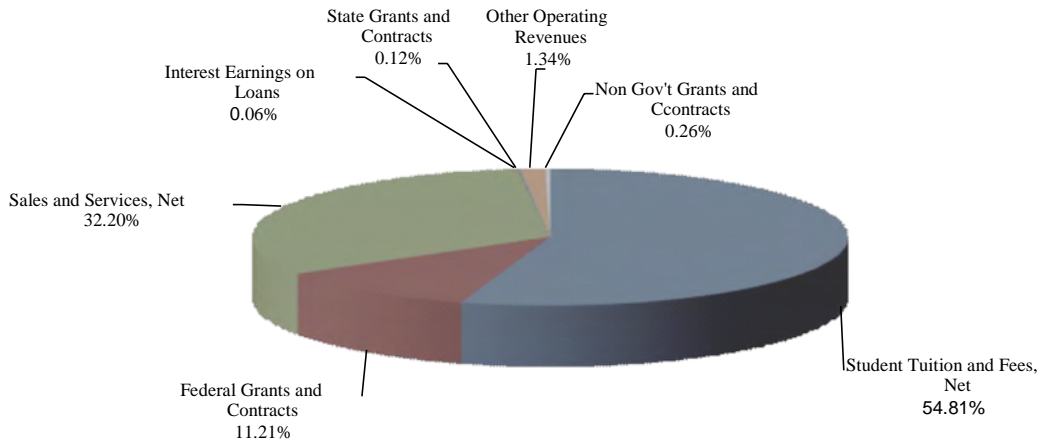
Operating revenues were \$72.6 million at June 30, 2013, an increase of \$0.8 million from 2012. Revenue from grants and contracts, which is recognized when earned, decreased by \$1.2 million, or 12.4%. Grants and contracts revenue is earned when expended in accordance with the grant or contract terms; those expenditures rise and fall as the sponsored program progresses, often over a period of several years. Tuition and fees increased by \$0.5 million and sales and services revenue increased by \$1.4 million, a 6.3% increase over 2012. Food and residential housing services were the primary sources of the increases experienced during the year. The year ended June 30, 2013 was the first full year of operations for a recently opened residence hall, generating the additional revenue.

Operating expenses increased by only \$0.2 million when compared to 2012. Salaries and benefits decreased by \$1 million and supplies and materials purchases decreased by almost \$0.3 million, while all other expense categories increased by a total of \$1.5 million. In response to the lack of significant growth in revenue, and as a result of the comprehensive restructuring plan implemented during the year, expenditures did not increase significantly from 2012 to 2013.

Overall, the University sustained a total operating loss of \$113.3 million in the current fiscal year, which is \$0.6 million less than the loss in fiscal year 2012. Operating losses are likely to continue due, in part, to the accounting requirement to categorize state appropriations (a major source of funding) as nonoperating revenues. In 2013, state appropriations were \$84.7 million.

Nonoperating revenues and expenses stem from transactions that occur outside of the primary scope of the University's purpose for existence and for which no goods or services are provided. State appropriations, noncapital grants and gifts, investment income/expenses, and capital-related interest primarily represent the nonoperating revenues and expenses. From fiscal year 2012 to fiscal year 2013, investment income increased by \$2.1 million. The increase in net unrealized investment gains were \$1.4 million, while realized gains and other investment income increased by \$0.7 million.

**Operating Revenues by Source**



**Capital Assets and Debt Administration**

As of June 30, 2013 there was no construction in progress. During the year, construction projects in process as of June 30, 2012 (\$4.2 million) were completed. In addition to the completion of all construction projects, there was an additional net increase of \$1.9 million in equipment, machinery and other small capital projects. For additional information concerning capital assets, see Notes 1(H), 5, and 15(A) in the Notes to the Financial Statements.

As of June 30, 2013, the University had \$90.2 million in outstanding bonds, notes, and leases payable of which \$57.2 million was for outstanding bonds issued by the UNC System Pool Revenue Bonds, Series 2009C to complete the construction of student housing, a parking deck, and renovations to the Walker Athletic Complex.

The University's Moody's Investor Service rating is A3, with a stable outlook. The rating has the potential to affect the cost of capital for any future borrowing that the University undertakes.

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

**Economic Outlook**

The economic conditions of the State and nation will have a sustained impact on the University and the campus community. The University will see further reductions in its appropriations from State government to adjust for expected decreases in the State's revenues. In response to the unstable economy, the University will continue to strategically manage

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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vacant positions, reorganize and restructure departmental units to be more efficient, purchase only goods and services critical to daily operations, limit travel to that which enhances delivery of services to all customers, and enhance fundraising strategies for private contributions.

Total fall headcount enrollments targets for academic year 2013-2014 were 9% lower than original budget projections for full-time and part-time students. Although this measure reflects the total number of students, the full-time equivalency (FTE) best captures the current enrollment trends. This is also the primary measure, coupled with the number of student credit hours, used to calculate enrollment growth funding. The overall FTE for the fall 2013-2014 was 3.8% lower than original budget projections. On average, students are enrolled in more credit hours. This positive factor, coupled with recent academic progression policy changes, increased admissions standards and targeted retention efforts, place NCCU in a great position to meet future enrollment growth targets.

University faculty continues writing, applying, and receiving grant funds to support research and other academic programs. It is through these efforts that NCCU students have additional opportunities to participate in meaningful programs as a part of their learning experience. As an example, the NC Housing Finance Agency has given \$800,000 to the NCCU School of Law, to provide foreclosure defense and prevention services to local and state residents through its nationally recognized legal clinic and TALIAS (Technology Assisted Legal Instruction and Services).

The University's Office of Sponsored Research and Programs works diligently with faculty to provide ongoing training and opportunities for research. NCCU is home to the Julius L. Chambers Biomedical/Biotechnology Research Institute (BBRI) and the Biomanufacturing Research Institute and Technology Enterprise (BRITE) which continue to attract growing support from sponsors such as the National Science Foundation and the National Institutes of Health. As higher education faces financial challenges in supporting operations while offering relevant educational programs, NCCU continues to develop and pursue sponsored research and program opportunities that enhance its students' educational experience.

**North Carolina Central University**  
**Statement of Net Position**  
**June 30, 2013**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 12,475,698
Restricted Cash and Cash Equivalents	12,096,882
Restricted Short-Term Investments	883,766
Receivables, Net (Note 4)	7,823,466
Due from University Component Units	1,126,380
Inventories	1,235,832
Notes Receivable, Net (Note 4)	129,110

Total Current Assets	35,771,134
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	226,942
Restricted Due from Primary Government	1,232
Endowment Investments	22,040,320
Deferred Charges	478,586
Notes Receivable, Net (Note 4)	2,940,729
Capital Assets - Nondepreciable (Note 5)	8,106,109
Capital Assets - Depreciable, Net (Note 5)	281,176,227

Total Noncurrent Assets	314,970,145
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Total Assets	350,741,279
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**DEFERRED OUTFLOWS OF RESOURCES**

Accumulated Decrease in Fair Value of Hedging Derivatives	1,106,309
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,612,813
Due to Primary Government	147,376
Funds Held for Others	1,126,380
Unearned Revenue	2,268,997
Interest Payable	1,014,034
Long-Term Liabilities - Current Portion (Note 7)	5,004,016

Total Current Liabilities	13,173,616
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Noncurrent Liabilities:

Deposits Payable	400
Funds Held for Others	757,456
U. S. Government Grants Refundable	2,181,059
Hedging Derivative Liability	1,106,309
Long-Term Liabilities (Note 7)	92,031,468

Total Noncurrent Liabilities	96,076,692
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Total Liabilities	109,250,308
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**North Carolina Central University**  
**Statement of Net Position**  
**June 30, 2013**

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

**NET POSITION**

Net Investment in Capital Assets	210,409,614
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,439,793
Endowed Professorships	9,443,854
Loans	1,201,206
Expendable:	
Scholarships and Fellowships	2,890,108
Research	194,808
Endowed Professorships	6,276,032
Departmental Uses	2,589,743
Capital Projects	1,315,492
Other	9,572
Unrestricted	<u>3,827,058</u>
Total Net Position	<u><u>\$ 242,597,280</u></u>

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

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

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 39,813,206
Federal Grants and Contracts	8,141,354
State and Local Grants and Contracts	87,169
Nongovernmental Grants and Contracts	189,827
Sales and Services, Net (Note 10)	23,386,964
Interest Earnings on Loans	43,186
Other Operating Revenues	976,969
	<hr/>
Total Operating Revenues	72,638,675
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	118,558,009
Supplies and Materials	11,142,601
Services	29,299,646
Scholarships and Fellowships	13,069,080
Utilities	5,177,778
Depreciation	8,639,183
	<hr/>
Total Operating Expenses	185,886,297
	<hr/>
Operating Loss	(113,247,622)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	84,714,668
Noncapital Grants - Student Financial Aid	20,876,326
Noncapital Grants	11,246,377
Noncapital Gifts	14,931
Investment Income (Net of Investment Expense of \$105,701)	2,756,662
Interest and Fees on Debt	(4,175,156)
Other Nonoperating Revenues	70,607
	<hr/>
Net Nonoperating Revenues	115,504,415
	<hr/>
Income Before Other Revenues	2,256,793
	<hr/>
Capital Appropriations	305,900
Capital Grants	2,211,219
Additions to Endowments	500,000
	<hr/>
Increase in Net Position	5,273,912

**NET POSITION**

Net Position - July 1, 2012	237,323,368
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Net Position - June 30, 2013	\$ 242,597,280
	<hr/> <hr/>

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

***North Carolina Central University***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2013***

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 74,156,594
Payments to Employees and Fringe Benefits	(117,921,384)
Payments to Vendors and Suppliers	(48,266,398)
Payments for Scholarships and Fellowships	(13,069,080)
Loans Issued	(230,130)
Collection of Loans	212,664
Interest Earned on Loans	41,307
Other Receipts	58,755
	<hr/>
Net Cash Used by Operating Activities	(105,017,672)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	84,714,668
Noncapital Grants - Student Financial Aid	21,404,914
Noncapital Grants	13,139,147
Noncapital Gifts	14,931
Additions to Endowments	500,000
William D. Ford Direct Lending Receipts	88,937,039
William D. Ford Direct Lending Disbursements	(88,937,039)
Related Activity Agency Disbursements	(13,758)
Other Receipts	70,607
	<hr/>
Net Cash Provided by Noncapital Financing Activities	119,830,509

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

State Capital Appropriations	305,900
Capital Grants	2,213,537
Acquisition and Construction of Capital Assets	(4,578,444)
Principal Paid on Capital Debt and Leases	(3,719,725)
Interest and Fees Paid on Capital Debt and Leases	(4,114,060)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(9,892,792)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	5,151,262
Investment Income	310,112
Purchase of Investments and Related Fees	(5,706,209)
	<hr/>
Net Cash Used by Investing Activities	(244,835)
	<hr/>
Net Increase in Cash and Cash Equivalents	4,675,210
Cash and Cash Equivalents - July 1, 2012	20,124,312
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 24,799,522

**North Carolina Central 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	\$	(113,247,622)
Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		8,639,183
Allowances and Write-Offs		(889,545)
Changes in Assets and Liabilities:		
Receivables (Net)		1,716,183
Inventories		(259,465)
Notes Receivable (Net)		(17,466)
Accounts Payable and Accrued Liabilities		(2,297,346)
Due to Primary Government		(1,023)
Due to State or Federal Agencies		240,212
U.S. Government Grants Refundable		58,755
Unearned Revenue		505,906
Compensated Absences		534,556
		<u>534,556</u>
Net Cash Used by Operating Activities	\$	<u>(105,017,672)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	12,475,698
Restricted Cash and Cash Equivalents		12,096,882
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		226,942
		<u>226,942</u>
Total Cash and Cash Equivalents - June 30, 2013	\$	<u>24,799,522</u>

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

Assets Acquired through the Assumption of a Liability	\$	563,655
Change in Fair Value of Investments		1,813,861
Loss on Disposal of Capital Assets		(12,748)
Amortization of Bond Discounts		14,496

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

***North Carolina Central University Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2013***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	2,123,188
Investments		11,019,993
Cash Surrender Value of Life Insurance		229,643
Receivables, Net		235,761
Property and Equipment, Net		147,034
		<hr/>
Total Assets		13,755,619

**LIABILITIES**

Accounts Payable and Accrued Expenses		2,912
Capital Leases Payable		52,636
Funds Held for Others		1,128,426
		<hr/>
Total Liabilities		1,183,974

**NET ASSETS**

Unrestricted		1,869,098
Temporarily Restricted		1,800,658
Permanently Restricted		8,901,889
		<hr/>
Total Net Assets	\$	12,571,645

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

**North Carolina Central University Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2013**

**Exhibit B-2**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES</b>				
Revenues, Gains, and Other Support:				
Contributions	\$ 137,553	\$ 825,171	\$ 549,745	\$ 1,512,469
Interest and Dividends, Net	15,916	132,516	3,832	152,264
Realized and Unrealized Gains on Investments	179,633	535,252	18,421	733,306
Other Income	27,268	41,091		68,359
Net Assets Released from Donor Restrictions	1,265,298	(1,265,298)		
Total Revenues, Gains, and Other Support	<u>1,625,668</u>	<u>268,732</u>	<u>571,998</u>	<u>2,466,398</u>
<b>EXPENSES</b>				
Program Services:				
Scholarships and Grants	806,549			806,549
University Support	334,896			334,896
Management and General	423,792			423,792
Provision for Bad Debts		(145,740)	(4,863)	(150,603)
Total Expenses	<u>1,565,237</u>	<u>(145,740)</u>	<u>(4,863)</u>	<u>1,414,634</u>
Changes in Net Assets Before Asset Transfers	<u>60,431</u>	<u>414,472</u>	<u>576,861</u>	<u>1,051,764</u>
Transfer from North Carolina Central University for Capital Lease Payment	<u>56,448</u>			<u>56,448</u>
Changes in Net Assets	116,879	414,472	576,861	1,108,212
<b>NET ASSETS</b>				
Net Assets - July 1, 2012	<u>1,752,219</u>	<u>1,386,186</u>	<u>8,325,028</u>	<u>11,463,433</u>
Net Assets - June 30, 2013	<u>\$ 1,869,098</u>	<u>\$ 1,800,658</u>	<u>\$ 8,901,889</u>	<u>\$ 12,571,645</u>

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

**NORTH CAROLINA CENTRAL UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Condensed combining information regarding the blended component unit is provided in Note 16.

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

The NCCU Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The NCCU Foundation board consists of 17 members. Although the University does not control the timing or amount of receipts from the NCCU Foundation, the majority of resources, or income thereon, that the NCCU Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the NCCU Foundation can only be used by, or for the benefit of the University, the NCCU Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The NCCU Foundation is a private not-for-profit organization that reports its financial results under 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 NCCU Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2013, the NCCU Foundation distributed \$806,249 to the University for both restricted and unrestricted purposes. The University remitted \$166,726 in payroll deducted employee contributions and \$98,968 in other reimbursements to the NCCU Foundation. Complete financial statements for the NCCU Foundation can be obtained from the University's Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707 or by calling (919) 530-7432.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (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 (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

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

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

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

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- L. Net Position** - The University's net position is classified as follows:

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$23,211,729 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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(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 \$1,880. The carrying amount of the University's deposits not with the State Treasurer was \$1,585,913 and the bank balance was \$3,150,294. 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 uninsured and uncollateralized bank balance was \$2,791,181.

### **B. Investments**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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

Investments are subject to the following risks.

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

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

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

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.

### *Long-Term Investment Pool*

	Fair Value
<b>Investment Type</b>	
UNC Investment Fund	\$ 17,086,572

**UNC Investment Fund, LLC** - At June 30, 2013, the University's investments include \$17,086,572 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the University's non-pooled investments.

### *Non-Pooled Investments*

<b>Investment Type</b>	Investment Maturities (in Years)	
	Fair Value	Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 576,705	\$ 576,705
Other Securities		
Domestic Stocks	5,260,809	
<b>Total Non-Pooled Investments</b>	<b>\$ 5,837,514</b>	

At June 30, 2013, the University's non-pooled investments included \$576,705 in unrated Money Market Mutual Funds.

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

<b>Investment Type</b>	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 576,705
Other Securities	
UNC Investment Fund	17,086,572
Domestic Stocks	5,260,809
<b>Total Investments</b>	<b>\$ 22,924,086</b>

**Component Unit** - Investments of the University's discretely presented component unit, NCCU Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

agreements. Because the NCCU Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

	Fair Value
<b>Investment Type</b>	
Money Market Funds	\$ 1,025,569
Equity Securities	4,901,892
Debt Securities	1,819,646
U. S. Government Obligations	1,337,903
Mutual Funds	1,355,504
Exchange Traded Funds	579,479
Total Investments	\$ 11,019,993

**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	\$ 1,880
Amount of Deposits with Private Financial Institutions	1,585,913
Deposits in the Short-Term Investment Fund	23,211,729
Investments in the UNC Investment Fund	17,086,572
Non-Pooled Investments	5,837,514
<b>Total Deposits and Investments</b>	<b>\$ 47,723,608</b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 12,475,698
Restricted Cash and Cash Equivalents	12,096,882
Noncurrent:	
Restricted Cash and Cash Equivalents	226,942
<b>Total Deposits</b>	<b>24,799,522</b>
Investments	
Current:	
Restricted Short-Term Investments	883,766
Noncurrent:	
Endowment Investments	22,040,320
<b>Total Investments</b>	<b>22,924,086</b>
<b>Total Deposits and Investments</b>	<b>\$ 47,723,608</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are determined by 5.5% of the 12-quarter moving average of the fund's market value. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University's Board of Trustees of the Endowment Fund. At June 30, 2013, net appreciation of \$8,170,563 was available to be spent, of which \$5,459,474 was classified in net position as Restricted Expendable: Scholarships and Fellowships and Restricted Expendable: Endowed Professorships, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2013 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 6,407,770	\$ 3,420,019	\$ 2,987,751
Accounts	1,118,246		1,118,246
Intergovernmental	3,637,401		3,637,401
Investment Earnings	5,570		5,570
Interest on Loans	74,498		74,498
<b>Total Current Receivables</b>	<b>\$ 11,243,485</b>	<b>\$ 3,420,019</b>	<b>\$ 7,823,466</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 295,471	\$ 166,361	\$ 129,110
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 6,751,519	\$ 3,810,790	\$ 2,940,729

### 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	\$ 7,274,669	\$ 0	\$ 0	\$ 7,274,669
Art, Literature, and Artifacts	831,440			831,440
Construction in Progress	4,168,614		4,168,614	
<b>Total Capital Assets, Nondepreciable</b>	<b>12,274,723</b>	<b>0</b>	<b>4,168,614</b>	<b>8,106,109</b>
Capital Assets, Depreciable:				
Buildings	331,139,933	311,115		331,451,048
Machinery and Equipment	35,993,382	617,343	192,535	36,418,190
General Infrastructure	16,283,517	5,333,790		21,617,307
<b>Total Capital Assets, Depreciable</b>	<b>383,416,832</b>	<b>6,262,248</b>	<b>192,535</b>	<b>389,486,545</b>
Less Accumulated Depreciation for:				
Buildings	76,511,975	5,672,402		82,184,377
Machinery and Equipment	13,140,906	2,198,745	179,787	15,159,864
General Infrastructure	10,198,041	768,036		10,966,077
<b>Total Accumulated Depreciation</b>	<b>99,850,922</b>	<b>8,639,183</b>	<b>179,787</b>	<b>108,310,318</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>283,565,910</b>	<b>(2,376,935)</b>	<b>12,748</b>	<b>281,176,227</b>
<b>Capital Assets, Net</b>	<b>\$ 295,840,633</b>	<b>\$ (2,376,935)</b>	<b>\$ 4,181,362</b>	<b>\$ 289,282,336</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 1,934,814
Accrued Payroll	781,092
Contract Retainage	335,083
Intergovernmental Payables	555,714
Other	6,110
<b>Total</b>	<b>\$ 3,612,813</b>

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 83,635,000	\$ 0	\$ 2,290,000	\$ 81,345,000	\$ 2,400,000
Deduct Discount	(313,015)		(14,496)	(298,519)	
Deduct Unamortized Cost on Refunding	(610,403)		(56,782)	(553,621)	
Total Revenue Bonds Payable	82,711,582	0	2,218,722	80,492,860	2,400,000
Notes Payable	6,532,959		274,460	6,258,499	293,477
Capital Leases Payable	3,790,478		1,155,265	2,635,213	1,205,049
Compensated Absences	7,114,356	5,426,735	4,892,179	7,648,912	1,105,490
<b>Total Long-Term Liabilities</b>	<b>\$ 100,149,375</b>	<b>\$ 5,426,735</b>	<b>\$ 8,540,626</b>	<b>\$ 97,035,484</b>	<b>\$ 5,004,016</b>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	See Table Below
<b>Revenue Bonds Payable</b>							
<u>The University of North Carolina System Pool Revenue Bonds</u>							
Housing System Revenue Bonds	2004B	4.0% to 5.0%	04/01/2023	\$ 8,670,000	\$ 3,285,000	\$ 5,385,000	
Housing System Parking Facility	2009C	4.0% to 5.5%	10/01/2034	60,675,000	3,435,000	57,240,000	
Total of The University of North Carolina System Pool Revenue Bonds				<u>69,345,000</u>	<u>6,720,000</u>	<u>62,625,000</u>	
<u>NCCU Real Estate Foundation, Inc.</u>							
Real Estate Foundation Housing System	2003A	3.46%*	10/01/2034	21,475,000	2,755,000	18,720,000	(1)
<b>Total Revenue Bonds Payable</b> (principal only)				<u>\$ 90,820,000</u>	<u>\$ 9,475,000</u>	81,345,000	
Less: Unamortized Cost on Refunding						(553,621)	
Less: Unamortized Discount						<u>(298,519)</u>	
<b>Total Revenue Bonds Payable</b>						<u>\$ 80,492,860</u>	

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

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues Real Estate	\$ 22,069,291	\$ 587,249	\$ 430,000	\$ 31,351	24.45%

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

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

**Student Housing Facilities Revenue Bonds (Series 2003)**: In October of 2003 the North Carolina Capital Facilities Finance Agency issued revenue bonds consisting of Series 2003A for \$21,475,000 that has a final maturity date of October 1, 2034. The series was issued to provide funds to the Real Estate Foundation (Foundation) for the purpose of financing the acquisition and construction of certain student housing facilities at North Carolina Central University. The bond proceeds were used to fund

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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a portion of construction period interest, to fund a debt service reserve fund for the 2003A bonds, and to pay certain costs of issuance of the bonds. The University entered into a loan agreement with the Foundation dated October 1, 2003, whereby the bond proceeds were loaned to the Foundation. Under the terms of the loan agreement, the Foundation agrees to provide funds for the principal and interest payments due on the bonds. The loan will be repaid over a 30-year period with variable interest rates set on a weekly basis, which was 0.06% for Series 2003A bonds at June 30, 2013. The interest rate can be converted from time to time to another interest rate made at the option of the Foundation given certain established criteria. The 2003A bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The payment of principal and interest on the Series 2003A bonds is secured by an irrevocable, direct-pay letter of credit issued by a financial institution, which originally expired on October 15, 2006. The letter of credit was subsequently extended until August 31, 2016, by request from the Foundation by delivering a notice of extension to the Trustee. The Foundation is entitled to draw up to \$18,932,160. A commitment fee was paid to the financial institution in the amount of \$109,098 for the letter of credit on the date the bonds were issued. The Foundation is required to pay a quarterly fee for the letter of credit of 1.2% per annum based on the unused portion of the letter of credit commitment. The Foundation paid credit facility fees in the amount of \$232,141 during the year ended June 30, 2013. The total amount drawn and paid on the letter of credit for the year ended June 30, 2013 was \$461,351.

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

The Series 2003A bonds have remarketing fees, an upfront charge paid to the remarketing agent to reset the interest rates on a weekly basis. At June 30, 2013, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2013, the Foundation paid remarketing fees of \$23,365.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Swap Payments and Associated Debt:** As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2013, debt service requirements of the University's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows:

Fiscal Year	Interest Rate Swap					
	Principal	Variable-Rate Bond		Remarketing	Interest Rate	Total
		Interest	Letter of Credit		Swaps, Net	
2014	\$ 455,000	\$ 11,051	\$ 221,010	\$ 23,022	\$ 248,931	\$ 959,014
2015	480,000	10,766	215,314	22,429	242,516	971,025
2016	505,000	10,494	209,887	21,863	236,402	983,646
2017	535,000	10,149	202,975	21,143	229,900	999,167
2018	565,000	9,814	196,272	20,445	220,447	1,011,978
2019-2023	3,330,000	43,379	867,587	90,374	977,600	5,308,940
2024-2028	4,365,000	31,737	634,743	66,119	206,864	5,304,463
2029-2033	5,720,000	16,433	328,669	34,236		6,099,338
2034-2038	2,765,000	1,273	25,456	2,652		2,794,381
<b>Total Requirements</b>	<b>\$ 18,720,000</b>	<b>\$ 145,096</b>	<b>\$ 2,901,913</b>	<b>\$ 302,283</b>	<b>\$ 2,362,660</b>	<b>\$ 24,431,952</b>

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

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2014	\$ 2,400,000	\$ 3,123,494	\$ 248,931	\$ 293,477	\$ 301,034
2015	2,500,000	3,042,253	242,516	313,316	286,918
2016	2,615,000	2,955,782	236,402	334,007	271,847
2017	2,730,000	2,865,318	229,900	355,584	255,781
2018	2,865,000	2,766,295	220,447	378,077	238,678
2019-2023	16,650,000	12,033,392	977,600	2,262,338	897,330
2024-2028	17,595,000	8,736,487	206,864	2,321,700	286,681
2029-2033	22,915,000	4,759,193			
2034-2038	11,075,000	464,648			
<b>Total Requirements</b>	<b>\$ 81,345,000</b>	<b>\$ 40,746,862</b>	<b>\$ 2,362,660</b>	<b>\$ 6,258,499</b>	<b>\$ 2,538,269</b>

The effective interest rate on the variable rate Student Housing Facilities Revenue Bonds (including the effect of the swap) is calculated at 3.46% at June 30, 2013. Interest rates are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions. This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 8 Derivative Instruments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**E. Prior Year Defeasance** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2013, the outstanding balance of prior year defeased bonds was \$5,055,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Principal Outstanding June 30, 2013
Energy Performance Contract	FifthThird Bank	4.81%	12/09/2026	\$ 6,532,959	\$ 274,460	\$ 6,258,499

### NOTE 8 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2013 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2013	
		Classification	Increase	Classification	Liability
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap 2003A Bonds	\$ 7,488,000	Deferred Outflow of Resources	\$ 545,992	Hedging Derivatives	\$ (1,106,309)

Hedging derivative instruments held at June 30, 2013 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Hedging Derivative Instruments Cash Flow Hedges Pay-Fixed Interest Rate Swap 2003A Bonds	Hedge of Changes in Cash Flows on the Student Facilities Revenue Series 2003A Bonds	\$ 7,488,000	04/01/2004	10/01/2024	Pay 3.515% Receive 70% 1 Mo. LIBOR

The fair value of the pay-fixed interest rate swap was developed by the financial institution. This method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is the present value of these payments.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The University's interest rate swap hedging derivative has been determined to be effective as of June 30, 2013 using the regression analysis method.

### *Hedging Derivative Risks*

*Credit Risk:* At June 30, 2013, the NCCU Real Estate Foundation, Inc. (Foundation) was not exposed to credit risk because the swap had a negative fair value. When the fair value of the swap is negative, the Foundation owes the counterparty and, therefore, it does not possess credit risk. However, should interest rates change and the fair value of the swap become positive, the Foundation would be exposed to credit risk. Wells Fargo's current long-term ratings are Aa3 by Moody's Investor's Service and AA- by Standard and Poor's Corporation (S&P).

*Interest Rate Risk:* The Foundation is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because bonds are trading at a yield above 70% of USD-LIBOR-BBA Index, the swap has a negative fair value as of June 30, 2013.

*Basis Risk:* The swap exposes the Foundation to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The Foundation receives 70% of 1-month USD-LIBOR-BBA Index. If the relationship of the Foundation's bonds trade to a percentage of LIBOR greater than 70%, the Foundation will experience an increase in debt service above the fixed rate on the swap. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.52% and the actual rate of 3.46% at June 30, 2013. As of June 30, 2013, the rate on the Foundation's bonds was 0.06% whereas 70% of LIBOR was 0.136%.

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

*Rollover Risk:* The Foundation is exposed to rollover risk when the swap matures on October 1, 2024. When the swap matures, the interest rate on the underlying debt will return to a variable rate until it matures on October 1, 2034.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 9 - LEASE OBLIGATIONS**

- A. Capital Lease Obligations** - Capital lease obligations relating to general infrastructure and machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 1,322,720
2015	1,322,720
2016	94,409
2017	94,408
Total Minimum Lease Payments	2,834,257
Amount Representing Interest (4.004% to 7.9% Rate of Interest)	199,044
<b>Present Value of Future Lease Payments</b>	<b>\$ 2,635,213</b>

General infrastructure acquired under capital lease amounted to \$566,900 at June 30, 2013. Machinery and equipment acquired under capital lease amounted to \$5,622,271 at June 30, 2013.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$1,504,775 at June 30, 2013.

- B. Operating Lease Obligations** - The University entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 163,492
2015	49,875
<b>Total Minimum Lease Payments</b>	<b>\$ 213,367</b>

Rental expense for all operating leases during the year was \$655,878.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 53,010,687	\$ 0	\$ 14,019,861	\$ (822,380)	\$ 39,813,206
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 14,075,406	\$ 237,959	\$ 3,133,601	\$ 0	\$ 10,703,846
Dining	9,621,719	306,554	2,509,307		6,805,858
Student Union Services	1,537,002		399,510		1,137,492
Health, Physical Education, and Recreation Services	684,260	4,373	177,859		502,028
Bookstore	321,196				321,196
Parking	1,068,863	17,480			1,051,383
Athletic	1,544,990	478,840	412,073		654,077
Other	2,032,337	678,280			1,354,057
Sales and Services of Education and Related Activities	1,508,480	651,453			857,027
<b>Total Sales and Services</b>	\$ 32,394,253	\$ 2,374,939	\$ 6,632,350	\$ 0	\$ 23,386,964

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

### NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 62,770,285	\$ 2,440,357	\$ 5,796,836	\$ 0	\$ 5,102	\$ 0	\$ 71,012,580
Research	4,565,024	839,361	1,828,658				7,233,043
Public Service	799,067	11,268	144,874				955,209
Academic Support	11,384,626	3,768,650	938,055				16,091,331
Student Services	3,237,739	278,609	1,211,191				4,727,539
Institutional Support	19,202,600	994,172	3,092,509				23,289,281
Operations and Maintenance of Plant	5,057,264	1,305,035	3,804,270		4,527,286		14,693,855
Student Financial Aid	1,220,053			13,069,080			14,289,133
Auxiliary Enterprises	10,321,351	1,505,149	12,483,253		645,390		24,955,143
Depreciation						8,639,183	8,639,183
<b>Total Operating Expenses</b>	\$ 118,558,009	\$ 11,142,601	\$ 29,299,646	\$ 13,069,080	\$ 5,177,778	\$ 8,639,183	\$ 185,886,297

### NOTE 12 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$92,144,327, of which \$55,276,382 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$4,604,523 and \$3,316,583, 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 \$4,604,523, \$4,155,823, and \$2,762,230, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$92,144,327, of which \$23,274,995 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,592,010 and \$1,396,500, respectively.

**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 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 \$137,921 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$11,999. The voluntary contributions by employees amounted to \$356,645 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 \$892,406 for the year ended June 30, 2013.

### **NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

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

The Plan's benefit and contribution provisions are established by 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$4,163,223, \$3,971,843, and \$3,807,785, 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.

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% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$345,626, \$413,072, and \$404,092, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### NOTE 14 - RISK MANAGEMENT

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

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

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. However, the University has chosen to maintain "Broad Form Coverage" on all operations supported by the State's General Fund. Broad Form coverage protects buildings in the case of fire, lightning, water damage, vandalism, sprinkler malfunction, damage from weight of snow, falling objects, and hail. Other operations not supported by the State's General Fund are charged for the insurance and have a choice of securing greater insurance coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These types of insurance include Master Musical Insurance to cover musical instruments owned by the University; Fine Art insurance to protect items considered works of art; Boiler and Machinery insurance to cover heavy equipment; and Postal Bond insurance to cover losses of United States Postal Service property.

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.

North Carolina Central University also carries professional internship insurance on students working in health fields. Departments that secure coverage include Nursing, Psychology, Communication Disorders, Physical Education and Recreation, and Social Work. This insurance is obtained from private insurance companies through the North Carolina Department of Insurance and covers students.

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

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

### NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$636,557 at June 30, 2013.
- B. **Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

### NOTE 16 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2013, is presented as follows:

#### *Condensed Statement of Net Position June 30, 2013*

	<u>NCCU Real Estate Foundation, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets	\$ 4,393,403	\$ (2,808,957)	\$ 1,584,446
Capital Assets	15,357,168	(15,357,168)	
Total Assets	<u>19,750,571</u>	<u>(18,166,125)</u>	<u>1,584,446</u>
Deferred Outflows of Resources	<u>1,106,309</u>		<u>1,106,309</u>
<b>LIABILITIES</b>			
Current Liabilities	2,675,391	(2,675,391)	
Noncurrent Liabilities	19,225,279	(18,118,970)	1,106,309
Total Liabilities	<u>21,900,670</u>	<u>(20,794,361)</u>	<u>1,106,309</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	(3,216,801)	3,216,801	
Restricted - Expendable	1,584,446		1,584,446
Unrestricted	588,565	(588,565)	
Total Net Position	<u>\$ (1,043,790)</u>	<u>2,628,236</u>	<u>\$ 1,584,446</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

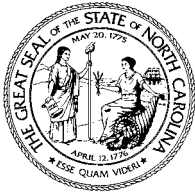
### *Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013*

	<b>NCCU Real Estate Foundation, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Rental Income	\$ 2,031,494	\$ (2,031,494)	\$ 0
<b>OPERATING EXPENSES</b>			
Operating Expenses	1,042,631	(1,042,631)	0
Depreciation	401,614	(401,614)	0
Total Operating Expenses	1,444,245	(1,444,245)	0
Operating Income	587,249	(587,249)	0
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest Income	132	0	132
Interest on Capital Asset Related Debt	(530,952)	530,952	0
Net Nonoperating Expenses	(530,820)	530,952	132
Increase in Net Position	56,429	(56,297)	132
<b>NET POSITION</b>			
Net Position, July 1, 2012	(1,100,219)	2,684,533	1,584,314
Net Position, June 30, 2013	\$ (1,043,790)	\$ 2,628,236	\$ 1,584,446

### *Condensed Statement of Cash Flows June 30, 2013*

	<b>NCCU Real Estate Foundation, Inc.</b>
Net Cash Provided by Operating Activities	\$ 1,821,265
Cash Used by Capital and Related Financing Activities	(954,046)
Net Increase in Cash and Cash Equivalents	867,219
Cash and Cash Equivalents, July 1, 2012	3,504,204
Cash and Cash Equivalents, June 30, 2013	\$ 4,371,423

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**Office of the State Auditor**

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

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

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Board of Trustees  
North Carolina Central University  
Durham, 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 Central University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 February 10, 2014. Our report includes a reference to other auditors who audited the financial statements of NCCU Real Estate Foundation, Inc. and NCCU Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU 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 those entities.

**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, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

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

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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

February 10, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes

Director of External Affairs