

# STATE OF NORTH CAROLINA

**NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS**

**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 SCHOOL OF SCIENCE AND MATHEMATICS**

**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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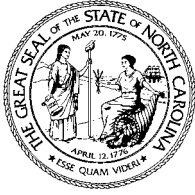
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**ROBERT ALLEN, VICE CHANCELLOR FOR FINANCE AND OPERATIONS**



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 School of Science and Mathematics

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

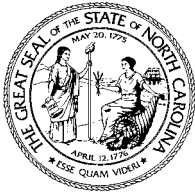
Beth A. Wood, CPA  
State Auditor

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# Office of the State Auditor



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the North Carolina School of Science and Mathematics Foundation, Inc., the School's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the North Carolina School of Science and Mathematics Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the North Carolina School of Science and Mathematics 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina School of Science and Mathematics 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 May 23, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 School's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 23, 2014

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

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### **Introduction**

The North Carolina School of Science and Mathematics (School) provides this overview and Management's Discussion and Analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2013. This discussion describes important trends and events that have impacted the fiscal health of the School and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the School's management along with the financial statements and the notes to the financial statements thereto. The report should be read and considered in its entirety.

### **Using the Annual Report**

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

### **Reporting Entity**

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

### **Financial Highlights**

The School's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2013. However, the combined net position for the School decreased \$998,623, which is a decrease of 2.26% when compared to the prior year net position.

### **Statement of Net Position**

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

Net position is divided into categories to show the availability to meet the School's obligations. The first category, net investment in capital assets, provides the School's equity in property, plant, and equipment. The next category is restricted net position and includes resources which the School is obligated to spend on capital projects. The final category is unrestricted net position. Unrestricted net position is available to the School for any lawful purpose.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### North Carolina School of Science and Mathematics Condensed Statement of Net Position

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Assets:</b>				
Current Assets	\$ 774,251.84	\$ 544,545.51	\$ 229,706.33	42.18%
Noncurrent Assets:				
Restricted Cash	721,123.39	13,790.43	707,332.96	5129.16%
Capital Assets	<u>44,262,542.08</u>	<u>45,425,618.04</u>	<u>(1,163,075.96)</u>	(2.56%)
Total Assets	<u>45,757,917.31</u>	<u>45,983,953.98</u>	<u>(226,036.67)</u>	(0.49%)
<b>Liabilities:</b>				
Current Liabilities	835,783.33	407,780.03	428,003.30	104.96%
Noncurrent Liabilities	<u>1,785,372.45</u>	<u>1,440,789.00</u>	<u>344,583.45</u>	23.92%
Total Liabilities	<u>2,621,155.78</u>	<u>1,848,569.03</u>	<u>772,586.75</u>	41.79%
<b>Net Position:</b>				
Net Investment in Capital Assets	44,262,542.08	45,425,618.04	(1,163,075.96)	(2.56%)
Restricted:				
Expendable				
Capital Projects	570,092.94	13,790.43	556,302.51	4033.98%
Unrestricted	<u>(1,695,873.49)</u>	<u>(1,304,023.52)</u>	<u>(391,849.97)</u>	30.05%
Total Net Position	<u>\$ 43,136,761.53</u>	<u>\$ 44,135,384.95</u>	<u>\$ (998,623.42)</u>	(2.26%)

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

As of June 30, 2013, the total School's net position was \$43.14 million. The School's capital assets of \$44.26 million represent 96.73% of total assets. Total assets decreased \$226,037, or 0.49% mainly due to depreciation allocated to the cost of capital assets. The increase in noncurrent restricted cash was due to an increase in unexpended appropriated capital improvements funds for various construction projects which were awarded late in the fiscal year and not used during the current year. The increase in current assets was due to increased cash for unexpended grant funds and reclassification of cash to cover current liabilities for restricted activities. These funds will be used during the next fiscal year. The decrease in noncurrent capital assets was due to depreciation for the current year.

The School's liabilities totaled \$2.62 million at June 30, 2013. Current liabilities, which include accounts payable, funds held for others, unearned revenue, and the current portion of compensated absences, increased \$428,003, or 104.96%, primarily due to unearned revenue from a cost reimbursement grant that will be earned during the next fiscal year in the amount of \$398,826 and an increase in accounts payable of \$189,021. The increase in noncurrent liabilities is mainly due to an increase in compensated absences of \$193,553. Details of both current and noncurrent liabilities are shown on the Statement of Net Position and in Notes 5 and 6.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Unrestricted net position decreased by \$391,850 to negative \$1.70 million. This was due primarily to \$1.71 million liability for unpaid leave benefits. Restricted net position increased \$556,303, or 4,033.98% as a result of the additional appropriations received for construction projects that will be spent during the next fiscal year.

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

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. The School's dependency on state aid, certain grants, and gifts will result in operating deficits since the GASB requires that state appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2013	2012	Increase/ (Decrease)	Percent Change
<b>Operating Revenues:</b>				
State and Local Grants and Contracts	\$ 121,173.93	\$ 0.00	\$ 121,173.93	100.00%
Sales and Services, Net	637,316.88	539,205.02	98,111.86	18.20%
Other	9,610.64	27,345.76	(17,735.12)	(64.86%)
<b>Total Operating Revenues</b>	<u>768,101.45</u>	<u>566,550.78</u>	<u>201,550.67</u>	35.58%
<b>Operating Expenses:</b>				
Salaries and Benefits	15,816,809.42	14,716,638.78	1,100,170.64	7.48%
Supplies and Materials	1,627,934.72	1,275,285.65	352,649.07	27.65%
Services	3,176,488.66	1,954,600.80	1,221,887.86	62.51%
Utilities	1,064,350.33	1,050,338.40	14,011.93	1.33%
Depreciation	1,178,648.96	1,312,993.93	(134,344.97)	(10.23%)
<b>Total Operating Expenses</b>	<u>22,864,232.09</u>	<u>20,309,857.56</u>	<u>2,554,374.53</u>	12.58%
<b>Operating Loss</b>	(22,096,130.64)	(19,743,306.78)	(2,352,823.86)	11.92%
<b>Nonoperating Revenues</b>				
State Appropriations	19,189,280.62	17,680,507.73	1,508,772.89	8.53%
Noncapital Grants, Net	377,543.22	736,581.62	(359,038.40)	(48.74%)
Noncapital Gifts	347,300.45		347,300.45	100.00%
Other Nonoperating Revenues	4,282.93	2,399.70	1,883.23	78.48%
<b>Nonoperating Revenues</b>	<u>19,918,407.22</u>	<u>18,419,489.05</u>	<u>1,498,918.17</u>	8.14%
<b>Loss Before Other Revenues</b>	(2,177,723.42)	(1,323,817.73)	(853,905.69)	64.50%
Capital Appropriations	1,179,100.00	211,374.49	967,725.51	457.83%
Capital Gifts		6,200.00	(6,200.00)	(100.00%)
<b>Decrease in Net Position</b>	(998,623.42)	(1,106,243.24)	107,619.82	(9.73%)
Net Position - July 1	<u>44,135,384.95</u>	<u>45,241,628.19</u>	<u>(1,106,243.24)</u>	(2.45%)
Net Position - June 30	<u>\$ 43,136,761.53</u>	<u>\$ 44,135,384.95</u>	<u>\$ (998,623.42)</u>	(2.26%)

The Statement of Revenues, Expenses, and Changes in Net Position shows a decrease in net position of \$998,623 for the fiscal year. The total operating loss for fiscal year 2013 was \$22.10 million. Since the State of North Carolina appropriations are not included within operating revenue per GASB, the School shows a significant operating loss.

Operating revenues include sales and services, state and local grants and contracts, and other operating revenues. The \$201,551 increase in operating revenues is primarily the result of increased services provided to students and from a grant received during the fiscal year.

Operating expenses, including depreciation of \$1.18 million, totaled \$22.86 million. Of this total, \$15.82 million was used for salaries and benefits and \$3.18 million was for services. Salaries and benefits increased \$1,100,171 due to positions that were filled for a time-limited grant to develop 16 curriculum courses with authentic assessments for four year-long courses

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

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in each of the four STEM (science, technology, engineering, and mathematics) areas. During 2013 a salary study was completed and funded as well as new positions being created. Services consisted of contractual agreements, repairs and maintenance, data processing services, travel, and communication expenses and increased by \$1,221,888, or 62.51% mainly due to increased repairs and renovations completed during the year. Supplies and materials increased by \$352,649 or 27.65% and utilities increased by \$14,012 or 1.33%. Departmental reallocations of spending based on current year changes in priorities to cover program objectives account for the changes in services and supplies and materials. Depreciation decreased \$134,345 or 10.23%. Overall operating expenses increased by \$2,554,375 or 12.58%.

State appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of the State Controller. For the fiscal year ending June 30, 2013, appropriations from the State for the School were \$19.19 million for operations. Nonoperating revenues increased 8.14% due to an increase in state appropriations for operations.

Noncapital grants decreased and noncapital gifts increased by approximately the same amount due to a change in the type of funding received during the year. Other nonoperating revenues increased minimally. New capital appropriations of \$967,726 were received for repairs and renovations and construction projects.

One of the School's weaknesses is the lack of diverse streams of revenues. Approximately 88% of the School's revenues come from state appropriations. The remaining 12% includes voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs. The School will continue to seek funding aggressively from all possible sources consistent with its mission and prudently manage the financial resources realized from these efforts to fund its operating activities.

### **Capital Assets**

Primary capital projects for fiscal year 2013 included the Discovery Center Planning. The Discovery Center reported on the financial statements as construction in progress is still a major State construction request for the School and is awaiting approval by the State for additional funding for completion. Total capital assets, net of accumulated depreciation, at June 30, 2013 were \$44.26 million. For more detailed information about capital asset holdings, see Note 4 of the Notes to the Financial Statements.

### **Factors Impacting Future Periods**

Management believes that the School is well positioned to continue its level of excellence in service to students, the community, and governmental agencies. The School's ongoing efforts toward maximizing the State's resources with efficiency and effectiveness measures, along with UNC Tomorrow initiatives to address needs of the State will enable it to provide the necessary resources to support this level of excellence. However, reductions in state appropriations will continue to impact the ability of the School to maintain resources to provide programs and services and to meet the growing demands of the State and its citizens.

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

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A crucial element to the School's future will continue to be its relationship with the State of North Carolina. It should be noted that the School's state appropriations will be decreased in 2013-2014 due to the continuing decline in the economy of North Carolina. While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina, the School's financial condition is strong enough to withstand the current economic uncertainties. The School developed a strategic plan in 2011-2012 that is enabling the School to develop and implement a blueprint for the future. The year-long term project included representatives from all constituencies of the School and is being reviewed and updated in the future in response to needs of all constituencies served by the School.

***North Carolina School of Science and Mathematics***  
***Statement of Net Position***  
***June 30, 2013***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 202,289.91
Restricted Cash and Cash Equivalents	531,209.65
Receivables, Net (Note 3)	5,485.72
Inventories	35,266.56
	<hr/>
Total Current Assets	774,251.84

Noncurrent Assets:

Restricted Cash and Cash Equivalents	721,123.39
Capital Assets - Nondepreciable (Note 4)	5,593,441.12
Capital Assets - Depreciable, Net (Note 4)	38,669,100.96
	<hr/>
Total Noncurrent Assets	44,983,665.47

Total Assets	<hr/> <hr/> 45,757,917.31
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	304,226.41
Funds Held for Others	57,509.85
Unearned Revenue	398,826.07
Long-Term Liabilities - Current Portion (Note 6)	75,221.00
	<hr/>
Total Current Liabilities	835,783.33

Noncurrent Liabilities:

Funds Held for Others	151,030.45
Long-Term Liabilities (Note 6)	1,634,342.00
	<hr/>
Total Noncurrent Liabilities	1,785,372.45

Total Liabilities	<hr/> <hr/> 2,621,155.78
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**NET POSITION**

Net Investment in Capital Assets	44,262,542.08
Restricted for Expendable:	
Capital Projects	570,092.94
Unrestricted	<hr/> (1,695,873.49)
Total Net Position	<hr/> <hr/> \$ 43,136,761.53

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



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

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
State and Local Grants and Contracts	121,173.93
Sales and Services, Net (Note 8)	637,316.88
Other Operating Revenues	9,610.64
	<hr/>
Total Operating Revenues	768,101.45
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	15,816,809.42
Supplies and Materials	1,627,934.72
Services	3,176,488.66
Utilities	1,064,350.33
Depreciation	1,178,648.96
	<hr/>
Total Operating Expenses	22,864,232.09
	<hr/>
Operating Loss	(22,096,130.64)
	<hr/>

**NONOPERATING REVENUES**

State Appropriations	19,189,280.62
Noncapital Grants, Net (Note 8)	377,543.22
Noncapital Gifts	347,300.45
Other Nonoperating Revenues	4,282.93
	<hr/>
Total Nonoperating Revenues	19,918,407.22
	<hr/>
Loss Before Other Revenues	(2,177,723.42)
	<hr/>
Capital Appropriations	1,179,100.00
	<hr/>
Decrease in Net Position	(998,623.42)
	<hr/>

**NET POSITION**

Net Position - July 1, 2012	44,135,384.95
	<hr/>
Net Position - June 30, 2013	\$ 43,136,761.53
	<hr/> <hr/>

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

***North Carolina School of Science and Mathematics  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 1,240,443.72
Payments to Employees and Fringe Benefits	(15,606,719.39)
Payments to Vendors and Suppliers	(5,820,103.52)
Student Deposits Received	184,479.90
Student Deposits Returned	(110,895.43)
Other Receipts	13,893.57
	<hr/>
Net Cash Used by Operating Activities	(20,098,901.15)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	19,189,280.62
Noncapital Grants	377,543.22
Noncapital Gifts	347,300.45
	<hr/>
Cash Provided by Noncapital Financing Activities	19,914,124.29

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

State Capital Appropriations	1,179,100.00
Acquisition and Construction of Capital Assets	(15,573.00)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	1,163,527.00

Net Increase in Cash and Cash Equivalents	978,750.14
Cash and Cash Equivalents - July 1, 2012	475,872.81
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 1,454,622.95

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

Operating Loss	\$ (22,096,130.64)
Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,178,648.96
Allowances	43,173.75
Nonoperating Other Income	4,282.93
Changes in Assets and Liabilities:	
Receivables (Net)	(1,610.33)
Inventories	147.43
Accounts Payable and Accrued Liabilities	189,021.21
Funds Held for Others	42,784.47
Unearned Revenue	398,826.07
Compensated Absences	141,955.00
	<hr/>
Net Cash Used by Operating Activities	\$ (20,098,901.15)

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 202,289.91
Restricted Cash and Cash Equivalents	531,209.65
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	721,123.39
	<hr/>
Total Cash and Cash Equivalents - June 30, 2013	\$ 1,454,622.95

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

***North Carolina School of Science and Mathematics  
Foundation, Inc.  
Statement of Financial Position  
June 30, 2013***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	3,103,527
Investments		6,266,035
Accounts Receivable		6,000
Pledges Receivable/Promises		76,248
In-Kind Gifts		41,405
Land		60,540
		<hr/>
Total Assets		9,553,755

**LIABILITIES**

Accounts Payable and Accrued Expenses		<hr/> 99,795
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**NET ASSETS**

Unrestricted		3,236,752
Temporarily Restricted		2,433,276
Permanently Restricted		<hr/> 3,783,932
Total Net Assets	\$	<hr/> <hr/> 9,453,960

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

***North Carolina School of Science and Mathematics  
Foundation, Inc.  
Statement of Activities  
For the Fiscal Year Ended June 30, 2013***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Operating Revenues, Gains, and Other Support:	
Grants and Contributions	\$ 688,228
Investment Return Designated for Current Operations	61,730
Other Investment Income	11,608
Net Assets Released from Donor Restrictions	<u>261,585</u>
Total Operating Revenues, Gains, and Other Support	1,023,151
Operating Expenses:	
Programs	471,422
Fund Raising	112,606
General and Administrative	<u>211,012</u>
Total Operating Expenses	<u>795,040</u>
Change in Net Assets from Operations	228,111
Investment Return Other than Amounts Designated for Current Operations	<u>112,702</u>
Increase in Unrestricted Net Assets	<u>340,813</u>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Operating Revenues, Gains, and Other Support:	
Grants and Contributions	302,927
Investment Return Designated for Current Operations	166,133
Other Investment Income	25,601
Net Assets Released from Donor Restrictions	<u>(261,585)</u>
Total Operating Revenues, Gains, and Other Support	233,076
Investment Return Other than Amounts Designated for Current Operations	<u>317,887</u>
Increase in Temporarily Restricted Net Assets	<u>550,963</u>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Operating Revenues, Gains, and Other Support:	
Grants and Contributions	<u>125,905</u>
Increase in Permanently Restricted Net Assets	<u>125,905</u>
Increase in Net Assets	1,017,681
Net Assets at Beginning of Year	<u>8,436,279</u>
Net Assets at End of Year	<u>\$ 9,453,960</u>

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

**NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS**  
**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. The North Carolina School of Science and Mathematics (School) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Condensed combining information regarding blended component unit is provided in Note 14.

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

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

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

During the year ended June 30, 2013, the Foundation distributed \$315,740 directly to the School and paid an additional \$373,494 on behalf of the School for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Katie Wagstaff, President, North Carolina School of Science and Mathematics Foundation, Inc., Post Office Box 2418, Durham, NC 27715-2418, or by calling (919) 416-2866.

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

## 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 School's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

- C. Basis of Accounting** - The financial statements of the School have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the School receives (or gives) value without directly giving (or receiving) equal value in exchange, 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, 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. Receivables** - Receivables consist of amounts due from former employees. Receivables also include amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The School's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**K. Net Position-** The School's net position is classified as follows:

**Net Investment in Capital Assets** - This represents the School's total investment in capital assets.

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

**Unrestricted Net Position-** Unrestricted net position includes resources derived from sales and services, unrestricted gifts, and royalties.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the School.

**L. Revenue and Expense Recognition** - The School classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the School's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) sales and services, and (2) certain state and local grants and contracts that are essentially contracts for services. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

**M. Internal Sales Activities** - Certain institutional sales and services units provide goods and services to School departments, as well as to its customers. These institutional sales and services units include activities such as central stores, copy centers, and postal services. All internal sales activities to School departments from sales and services units have been

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the sales and services 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 School is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the School 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 School may voluntarily deposit institutional trust funds and special funds with the State Treasurer. Special funds consist of moneys for athletics and agency funds held directly by the School.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,372,931.70 which represents the School's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2013 was \$600.00. The carrying amount of the School's deposits not with the State Treasurer was \$81,091.25 and the bank balance was \$123,384.94. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk. As of June 30, 2013, the School's bank balance was fully insured by federal depository insurance and was not exposed to custodial credit risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investment Type	Fair Value
UNC Investment Fund	\$ 6,151,116
Other Mutual Funds	114,919
	\$ 6,266,035

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Intergovernmental	\$ 3,694.78	\$ 3,694.78	\$ 0.00
Other	44,964.69	39,478.97	5,485.72
<b>Total Current Receivables</b>	\$ 48,659.47	\$ 43,173.75	\$ 5,485.72

### NOTE 4 - 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	\$ 1,337,173.66	\$ 0.00	\$ 0.00	\$ 1,337,173.66
Art	10,092.76			10,092.76
Construction in Progress	4,246,174.70			4,246,174.70
<b>Total Capital Assets, Nondepreciable</b>	5,593,441.12			5,593,441.12
Capital Assets, Depreciable:				
Buildings	51,356,149.10			51,356,149.10
Machinery and Equipment	1,681,124.50	15,573.00	14,155.90	1,682,541.60
General Infrastructure	1,695,363.00			1,695,363.00
<b>Total Capital Assets, Depreciable</b>	54,732,636.60	15,573.00	14,155.90	54,734,053.70
Less Accumulated Depreciation for:				
Buildings	13,360,431.31	1,030,555.27		14,390,986.58
Machinery and Equipment	998,039.97	106,687.17	14,155.90	1,090,571.24
General Infrastructure	541,988.40	41,406.52		583,394.92
<b>Total Accumulated Depreciation</b>	14,900,459.68	1,178,648.96	14,155.90	16,064,952.74
<b>Total Capital Assets, Depreciable, Net</b>	39,832,176.92	(1,163,075.96)		38,669,100.96
<b>Capital Assets, Net</b>	\$ 45,425,618.04	\$ (1,163,075.96)	\$ 0.00	\$ 44,262,542.08

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

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**NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	<u>Amount</u>
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 189,631.17
Accrued Payroll	<u>114,595.24</u>
<b>Total</b>	<u><u>\$ 304,226.41</u></u>

**NOTE 6 - LONG-TERM LIABILITIES**

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

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Compensated Absences	\$ 1,567,608.00	\$ 986,795.00	\$ 844,840.00	\$ 1,709,563.00	\$ 75,221.00

**NOTE 7 - OPERATING LEASE OBLIGATIONS**

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

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 76,483.03
2015	12,329.96
2016	<u>2,275.46</u>
<b>Total Minimum Lease Payments</b>	<u><u>\$ 91,088.45</u></u>

Rental expense for all operating leases during the year was \$114,349.08.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Allowance for Uncollectibles*	Net Revenues
<b>Operating Revenues:</b>				
Sales and Services	\$ 703,725.73	\$ 66,408.85	\$ 0.00	\$ 637,316.88
<b>Nonoperating - Noncapital Grants</b>	\$ 381,238.00	\$ 0.00	\$ 3,694.78	\$ 377,543.22

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

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	\$ 8,579,419.40	\$ 365,703.05	\$ 191,666.51	\$ 0.00	\$ 0.00	\$ 9,136,788.96
Academic Support	275,477.43	72,595.52	48,027.91			396,100.86
Student Services	2,845,963.81	186,145.81	1,833,707.97			4,865,817.59
Institutional Support	3,064,643.90	241,568.57	633,922.16			3,940,134.63
Operations and Maintenance of Plant	1,051,304.88	761,921.77	469,164.11	1,064,350.33		3,346,741.09
Depreciation					1,178,648.96	1,178,648.96
<b>Total Operating Expenses</b>	\$ 15,816,809.42	\$ 1,627,934.72	\$ 3,176,488.66	\$ 1,064,350.33	\$ 1,178,648.96	\$ 22,864,232.09

### NOTE 10 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 School had a total payroll of \$12,141,757.41, of which \$9,641,892.63 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$803,169.66 and \$578,513.56, 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 School made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$803,169.66, \$697,242.55, and \$473,324.21, 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 School may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2013, these rates were set at 6.84% of covered payroll for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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employers and 6% of covered payroll for members. The School assumes no liability other than its contribution.

For the current fiscal year, the School had a total payroll of \$12,141,757.41, of which \$1,282,561.40 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$87,727.20 and \$76,953.68, 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 School. The voluntary contributions by employees amounted to \$59,419.96 for the year ended June 30, 2013.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the School. The voluntary contributions by employees amounted to \$136,155.30 for the year ended June 30, 2013.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible School employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrators are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Prudential, Fidelity, TIAA CREF, VALIC, and Lincoln Investment Planning. No costs are incurred by the School. The voluntary contributions by employees amounted to \$140,721.69 for the year ended June 30, 2013.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the School 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 School made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$578,996.06, \$525,168.42, and \$524,028.34, respectively. The School assumes no liability for retiree health care benefits provided by the programs other than its required contribution.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 School participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the School 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 School made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$48,067.60, \$54,617.52, and \$55,616.90, respectively. The School assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 12 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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contract with a private insurance company. The School pays the premium, based on a composite rate, directly to the private insurer.

The School is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the School for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

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

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

The School purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Examples include, but are not limited to, fine arts, boiler and machinery, excess liability, university intern general liability and volunteer accident and health.

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

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

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.

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

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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 13 - COMMITMENTS AND CONTINGENCIES**

The School has established an encumbrance system to track its outstanding commitments on purchases. Outstanding commitments on purchase contracts were \$658,379.33 at June 30, 2013.

**NOTE 14 - BLENDED COMPONENT UNIT**

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

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

	<b>NCSSM Student and Constituent Support Services, Inc.</b>
<b>ASSETS</b>	
Current Assets	\$ 110,147.75
<b>LIABILITIES</b>	
Current Liabilities	1,947.33
<b>NET POSITION</b>	
Unrestricted	\$ 108,200.42

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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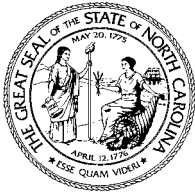
### *Condensed Statement of Revenues, Expenses, and Changes in Net Position*

*For the Fiscal Year Ended June 30, 2013*

	<b>NCSSM Student and Constituent Support Services, Inc.</b>
<b>OPERATING REVENUES</b>	
Sales and Services	\$ 474,809.94
Other Operating Revenues	141.94
Total Operating Revenues	<u>474,951.88</u>
<b>OPERATING EXPENSES</b>	
Operating Expenses	<u>483,284.15</u>
Operating Loss	<u>(8,332.27)</u>
<b>NONOPERATING REVENUES</b>	
Noncapital Grants	<u>5,668.00</u>
Decrease in Net Position	<u>(2,664.27)</u>
<b>NET POSITION</b>	
Net Position, July 1, 2012	<u>110,864.69</u>
Net Position, June 30, 2013	<u>\$ 108,200.42</u>

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

	<b>NCSSM Student and Constituent Support Services, Inc.</b>
Net Cash Used by Operating Activities	\$ (17,570.73)
Cash Provided by Noncapital Financing Activities	<u>5,668.00</u>
Net Decrease in Cash and Cash Equivalents	(11,902.73)
Cash and Cash Equivalents, July 1, 2012	<u>93,601.98</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 81,699.25</u>

**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 School of Science and Mathematics  
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 School of Science and Mathematics, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated May 23, 2014. Our report includes a reference to other auditors who audited the financial statements of the North Carolina School of Science and Mathematics Foundation, Inc., as described in our report on the School's financial statements. The financial statements of the North Carolina School of Science and Mathematics 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 the North Carolina School of Science and Mathematics Foundation, Inc.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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possibility that a material misstatement of the School'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 School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 23, 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  
20601 Mail Service Center  
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