

# STATE OF NORTH CAROLINA

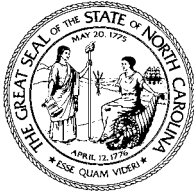
**NORTH CAROLINA STATE UNIVERSITY**  
**RALEIGH, NORTH CAROLINA**  
**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**



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 State University

We have completed a financial statement audit of North Carolina State University for the year ended June 30, 2014, 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".

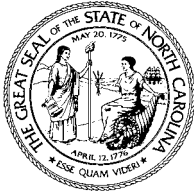
Beth A. Wood, CPA  
State Auditor

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# Office of the State Auditor



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

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## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
North Carolina State University  
Raleigh, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NC State Investment Fund, Inc., which represent 12 percent, 9 percent, and 3 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of the North Carolina State University Foundation, Inc., the NC State Student Aid Association, Inc., or The North Carolina Agricultural Foundation, Inc., the University's discretely presented component units. 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.

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

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The financial statements of the North Carolina State University Foundation, Inc., the NC State Student Aid Association, Inc., and The North Carolina Agricultural Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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 State University and its discretely presented component units, as of June 30, 2014, 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.

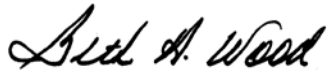
### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014 on our consideration of the University's internal control over financial

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the 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

November 7, 2014

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

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### **Introduction**

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of the University.

### **Financial Highlights**

NC State University's net position increased by \$95.1 million to \$1.92 billion in fiscal year 2014. Net position represents the University's equity. It is the residual of all the other elements of the statement of financial position, the assets and deferred outflows of resources less liabilities and deferred inflows of resources. The net investment in capital assets increase of \$105.4 million was the major factor in the overall 5.2% increase in net position. In a related net position change, the restricted expendable net position decreased \$44.5 million, primarily due to the proceeds from bond issuances being spent for the capital projects. The unrestricted net position balance increased by \$25.4 million.

Revenues increased by \$32.3 million, or 2.4%, to \$1.37 billion in fiscal year 2014. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. Increases in tuition and fees, sales and services, federal contracts and grants, investment income and gifts were the primary factors in the revenue growth. These increases were partially offset by decreases in state appropriations.

Operating expenses held steady in fiscal year 2014, up just \$6.8 million or 0.5% compared to fiscal year 2013. Operating expenses represent amounts paid or accrued for operating purposes. Auxiliary services, depreciation/amortization and research showed the largest increases, while other functional categories had small increases or decreases.

### **Using the Financial Statements**

The University's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board, (GASB), which establishes standards for external financial reporting 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.

North Carolina State University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the state of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. Also, NC State blends two component units as if they were part of the University, and three entities are reported as



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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discretely presented component units based on the nature and significance of their relationship to the University. Note 1A provides detailed information on the University's financial reporting entity.

The University's three financial statements are used to evaluate financial position as of June 30<sup>th</sup> and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*.

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Position*. Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The notes provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other postemployment benefits, insurance against losses, commitments and contingencies, and accounting changes. If necessary, the disclosures include a discussion of adjustments to prior periods and events subsequent to the University's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

### **Comparative Condensed Financial Statement Information**

#### **Statement of Net Position**

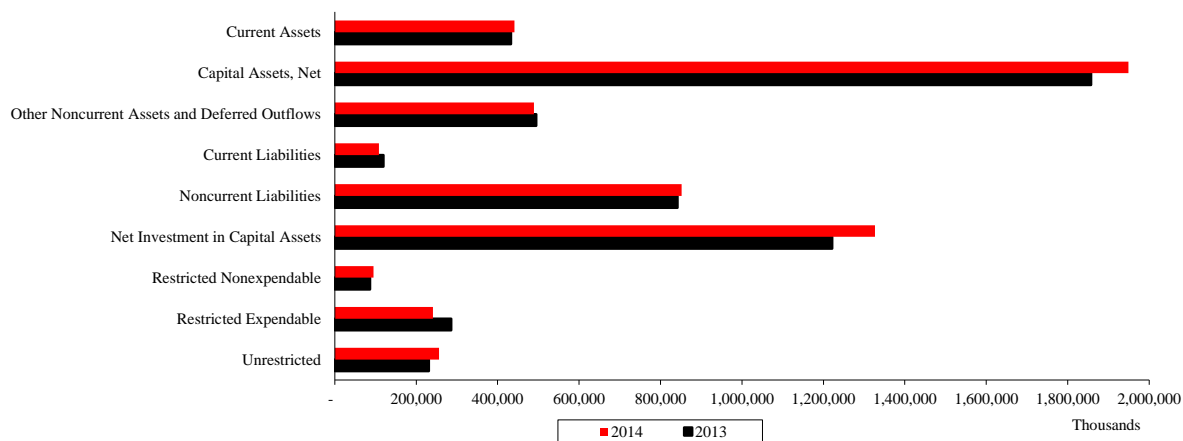
The *Statement of Net Position* provides information regarding the University's assets, deferred outflows and inflows of resources, liabilities, and net position as of June 30, 2014. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted or unrestricted. In addition, net position balances classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Position* as of June 30, 2013, and June 30, 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	2014	2013	Increase/ (Decrease)
<b>Assets</b>			
Current Assets	\$ 440,890,682	\$ 432,773,142	\$ 8,117,540
Capital Assets, Net	1,948,828,394	1,857,583,114	91,245,280
Other Noncurrent Assets	477,432,595	482,324,682	(4,892,087)
<b>Total Assets</b>	<b>2,867,151,671</b>	<b>2,772,680,938</b>	<b>94,470,733</b>
<b>Deferred Outflows of Resources</b>			
Accumulated Decrease in Fair Value of Hedging Derivatives	11,972,586	12,215,623	(243,037)
<b>Liabilities</b>			
Current Liabilities	108,207,622	119,556,573	(11,348,951)
Noncurrent Liabilities	851,844,663	841,328,178	10,516,485
<b>Total Liabilities</b>	<b>960,052,285</b>	<b>960,884,751</b>	<b>(832,466)</b>
<b>Deferred Inflows of Resources</b>			
<b>Net Position</b>			
Net Investment in Capital Assets	1,326,687,511	1,221,318,466	105,369,045
Restricted			
Nonexpendable	94,889,611	86,139,016	8,750,595
Expendable	241,254,150	285,752,034	(44,497,884)
Unrestricted	256,240,700	230,802,294	25,438,406
<b>Total Net Position</b>	<b>\$ 1,919,071,972</b>	<b>\$ 1,824,011,810</b>	<b>\$ 95,060,162</b>

The following graph illustrates the assets, deferred outflows, liabilities and net position of the University as of June 30, 2014, as compared to June 30, 2013 (*in thousands*).



Assets totaled \$2.87 billion, an increase of \$94.5 million over the prior year. This change in assets includes capital asset growth of \$91.3 million, an increase in current assets of \$8.1 million and a decrease in other noncurrent assets of \$4.9 million.

The capital asset growth of \$91.3 million is due to construction funding from capital grants and gifts and the spending of proceeds from prior year capital financing. The University

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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received \$14.2 million in capital grant and appropriation resources and \$2.8 million in capital gifts in 2014. However, the capital grant funding was down \$23.0 million due to a drop in the State bond/certificate of participation program funding. The major source for the capital growth was spending down of the 2013 bond proceeds for capital projects.

Current assets increase by \$8.1 million in fiscal year 2014. This increase was primarily the result of an increase in \$8.0 million in accounts receivable. The increase in accounts receivable is related to an increase in federal contract and grant receivables caused by new federal awards for research and development and amounts that were not yet drawn down by the University at June 30, 2014. Other current asset accounts showed small increases or decreases.

The \$4.9 million decrease in other noncurrent assets is made up of decreases in restricted cash and offsetting increases in endowment investments and noncurrent restricted investments. Restricted cash decreased \$53.8 million, primarily due to the spending down of the proceeds from the University's February 2013 Series 2013A and Series 2013B bond issuances. Endowment investments increased \$27.6 million and noncurrent restricted investments increased \$21.2 million, both due to improved market conditions and new gifts.

The deferred outflow of resources for the University's swap agreements is shown in a separate section of the financial statements based on GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented in fiscal year 2013. The \$0.2 million decrease in the deferred outflow of resources is based on market fluctuations.

Liabilities totaled \$960.1 million, a decrease of \$0.8 million over the prior year. The decrease in liabilities is attributable to a decrease in current liabilities of \$11.3 million and an increase in noncurrent liabilities of \$10.5 million.

Current liabilities totaled \$108.2 million. These liabilities include accounts payable and accrued liabilities, due to other entities, unearned revenue, and the current portion of University debt. The current liabilities decrease of \$11.3 million was primarily caused by \$14.8 million decrease in accounts payable and a \$6.7 million drop in amounts due to primary government. This payables drop was caused by lower construction-related payables as several major building projects were completed. Payroll related accruals also dropped as benefit liabilities were paid before June 30. Also, departments completed their transactions earlier this year reducing general payables. These payable decreases were partially offset by a \$10.0 million increase in short-term debt, as commercial paper of this amount was issued in 2014.

Noncurrent liabilities totaled \$851.8 million, and include accounts payable, deposits payable, funds held for other entities, funds held in trust in the investment pool, long-term debt, compensated absences and the hedging derivative liability. The primary factor in the \$10.5 million increase in noncurrent liabilities was growth in funds held in trust for investment pool participants and funds held for others. Together, these two accounts increased by \$27.3 million, caused by changes in participant deposits and market values of the

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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investments held. Partially offsetting these increases were decreases in long-term liabilities of \$15.5 million, mostly due to regular and expected debt payments. The hedging derivative liability increases and decreases due to market and showed a small decrease in fiscal year 2014. Other noncurrent liabilities increased or decreased by small amounts.

Net position totaled \$1.92 billion, an increase of \$95.1 million over the prior year. Net investment in capital assets rose \$105.4 million to \$1.33 billion as capital projects were completed and equipment was capitalized during the fiscal year. Unrestricted net position also increased by \$25.4 million, with major factors being tuition and fees and sales and services revenues. Restricted nonexpendable net position rose \$8.8 million with increases in endowed professorships and departmental uses. However, restricted expendable net position fell by \$44.5 million, primarily caused by a \$68.0 million drop in the capital projects net position. Again, this large decrease is related to the spending down of the 2013 bond proceeds and the corresponding increase in net investment in capital assets. The capital projects decrease was partially offset by increases in endowed professorships, departmental uses, scholarship and fellowship and debt service net positions.

The University's current assets are more than sufficient to cover current liabilities, with a ratio of 4.1 times compared to 3.6 times in the prior year. The University's total assets are significantly more than the University's liabilities with a ratio of 3.0 times as compared to 2.9 times in the prior year. These financial ratios are indicators of NC State's financial strength and its ability to meet current and long-term obligations.

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

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the University's activities for the year ending June 30, 2014. The activity balances are classified as operating, nonoperating, or other. Activities classified as operating include all revenues of the University except those considered nonoperating or those associated with funds received to enhance capital assets or permanent endowments. Operating expenses are all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital gifts and grants revenue, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital gifts or grants and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years ended June 30, 2014, and June 30, 2013. The 2013 balances were restated to be consistent with the current year presentation of including student financial aid grants in one caption, Noncapital Grants – Student Financial Aid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2014</u>	<u>2013 (As Restated)</u>	<u>Increase/ (Decrease)</u>
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 254,088,086	\$ 242,771,900	\$ 11,316,186
Federal Appropriations	19,849,729	18,723,388	1,126,341
Grants and Contracts	247,930,883	243,986,225	3,944,658
Sales and Services, Net	212,574,989	201,346,622	11,228,367
Other	18,287,529	16,307,078	1,980,451
<b>Total Operating Revenues</b>	<u>752,731,216</u>	<u>723,135,213</u>	<u>29,596,003</u>
<b>Operating Expenses</b>			
Salaries and Benefits	813,311,685	802,243,208	11,068,477
Supplies and Materials	112,422,816	130,090,658	(17,667,842)
Services	200,405,753	196,058,974	4,346,779
Scholarships and Fellowships	45,125,241	47,507,403	(2,382,162)
Utilities	36,820,865	34,337,800	2,483,065
Depreciation/Amortization	77,866,410	68,939,780	8,926,630
<b>Total Operating Expenses</b>	<u>1,285,952,770</u>	<u>1,279,177,823</u>	<u>6,774,947</u>
Net Operating Loss	<u>(533,221,554)</u>	<u>(556,042,610)</u>	<u>22,821,056</u>
<b>Nonoperating Revenues (Expenses)</b>			
State Appropriations	473,005,231	484,021,602	(11,016,371)
Noncapital Grants - Student Financial Aid	48,015,586	47,904,557	111,029
Other Noncapital Grants and Gifts	67,380,735	60,671,345	6,709,390
Investment Income	26,327,347	18,617,624	7,709,723
Other	(9,506,065)	(13,000,902)	(3,494,837)
<b>Net Nonoperating Revenues</b>	<u>605,222,834</u>	<u>598,214,226</u>	<u>7,008,608</u>
<b>Gain Before Other Revenues</b>	<u>72,001,280</u>	<u>42,171,616</u>	<u>29,829,664</u>
Capital Appropriations, Gifts, and Grants	17,002,639	32,142,089	(15,139,450)
Additions to Permanent Endowments	6,056,243	4,791,531	1,264,712
<b>Increase in Net Position</b>	<u>\$ 95,060,162</u>	<u>\$ 79,105,236</u>	<u>\$ 15,954,926</u>

### Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenues/expenses for the fiscal year 2014 and 2013, and the consistency of relationships between the two years.

#### Operating and Nonoperating Revenues

Title	% to Total 2014	% to Total Restated 2013
State Appropriations	35%	36%
Research Contracts and Grants	18%	19%
Student Tuition and Fees	19%	18%
Sales and Services	16%	15%
Noncapital Grants and Gifts	8%	8%
Federal Appropriations	1%	1%
Other	3%	3%
<b>Total</b>	<u>100%</u>	<u>100%</u>

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

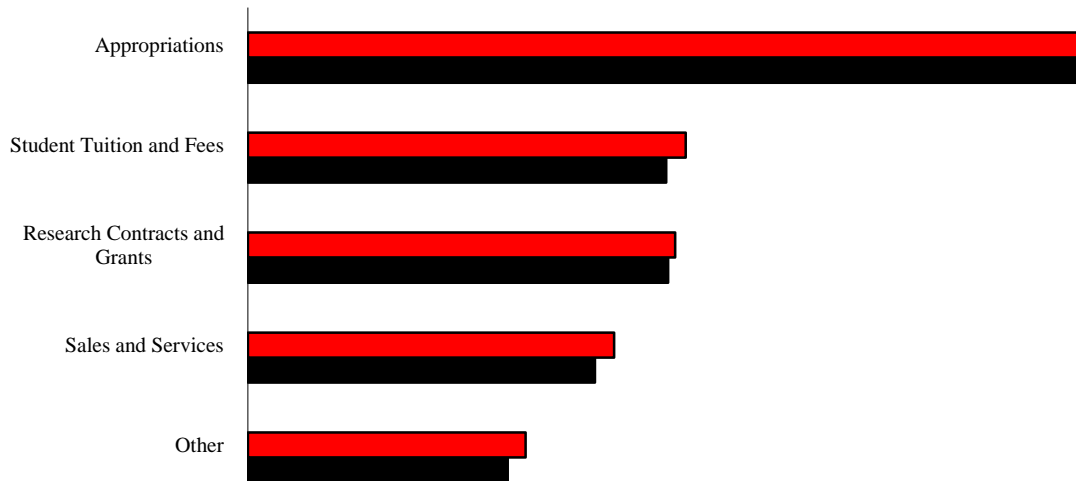
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**Operating and Nonoperating Expenses**

Title	% to Total 2014	% to Total 2013
Instruction	30%	30%
Research	18%	18%
Public Service	9%	10%
Auxiliary Enterprises	12%	11%
Operations & Maintenance of	6%	6%
Academic Support	6%	7%
Institutional Support	6%	6%
Depreciation/Amortization	6%	5%
Student Financial Aid	4%	4%
Student Services	2%	2%
Other	1%	1%
Total	<u>100%</u>	<u>100%</u>

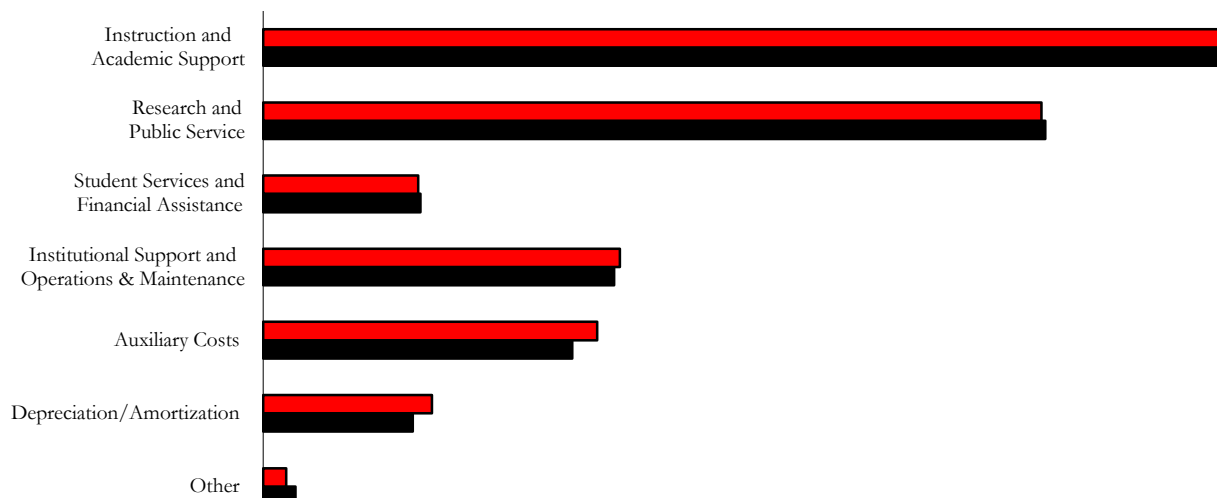
The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function (*in thousands*).

**Operating and Nonoperating Revenues**



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Operating and Nonoperating Expenses



Total revenues (operating and nonoperating) increased \$32.3 million or 2.4% compared to the prior year. Student tuition and fees increased \$11.3 million, as rates increased in 2014 for resident and nonresident students. Sales and services revenues were also up \$11.2 million or 5.6%, with increases in various services including housing, veterinary services, dining and athletics. Research contracts and grants rose by \$3.9 million, primarily in federal contracts and grants. With the gradual improvement in the economy, investment income increased \$7.7 million and noncapital gifts were up \$7.0 million. However, state appropriations decreased \$11.0 million in 2014 with the continuing cuts to State budgets.

Total expenses (operating and nonoperating) increased \$2.5 million or 0.2% compared to the prior year. Salaries and benefits increased \$11.1 million or 1.4% in 2014. There were no legislative increases in 2014 but other salary increases, increases in the related benefits, and a small increase in the University's required contribution to the employee retirement plan contributed to the salaries growth. The largest salary increases were in instruction and research. As capital assets rose, the related depreciation/amortization expense also increased by \$8.9 million or 12.9%. Services increased by \$4.3 million or 2.2%, with the largest increases in auxiliary enterprises, including increases for athletics, housing, security technology, transportation and dining. Offsetting these and other smaller increases to expenses, supplies fell \$17.7 million, as more assets were capitalized and departments dealt with budget cuts. Other nonoperating expenses decreased by \$3.5 million, primarily caused by an increase in capitalized interest moving interest expenses to capital assets.

#### Other Activity

Other activity totaled \$23.1 million, down \$13.9 million from the prior year. Capital grants decreased by \$23.0 million, primarily in state bond/COPs aid. However the University did receive an additional \$10.2 million from the State in capital appropriations. Capital gifts fell \$2.3 million offsetting the \$1.3 million increase in additions to permanent endowments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets and Long-Term Debt Activities

#### Capital Assets

The University capitalizes assets that have a value or cost equal to or greater than \$5,000 at the date of acquisition and an expected useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. Repairs and renovations that do not extend the life of the building beyond the expected useful life at acquisition, nor increase the future service potential of the building are expensed and not capitalized.

Machinery and equipment are depreciated over their estimated useful lives, generally 4 to 22 years beginning in the year of acquisition. Buildings and general infrastructure are depreciated over their estimated useful lives, generally 10 to 50 years for buildings and 15 to 75 years for general infrastructure beginning in the year that the construction is completed or, if purchased after construction, when acquired. Computer software is amortized over a useful life of 2 to 15 years. Land, construction in progress, and computer software in development are nondepreciable capital assets. When a construction project is completed, the capital project costs are moved from the construction in progress account to either buildings or general infrastructure as appropriate.

As shown in the following table, the University increased its net capital assets by \$91.2 million during fiscal year 2014.

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Land	\$ 38,811,135	\$ 36,617,019	\$ 2,194,116
Construction in Progress	128,566,044	247,093,834	(118,527,790)
Computer Software in Development	873,929	6,220,164	(5,346,235)
Buildings	2,013,740,521	1,770,800,729	242,939,792
Machinery and Equipment	332,699,146	319,886,981	12,812,165
General Infrastructure	202,218,931	197,094,366	5,124,565
Computer Software	<u>15,100,783</u>	<u>7,235,422</u>	<u>7,865,361</u>
Total Capital Assets	2,732,010,489	2,584,948,515	147,061,974
Accumulated Depreciation/Amortization	<u>(783,182,095)</u>	<u>(727,365,401)</u>	<u>(55,816,694)</u>
Net Capital Assets	<u>\$ 1,948,828,394</u>	<u>\$ 1,857,583,114</u>	<u>\$ 91,245,280</u>

In addition to costs incurred, the University had \$34,242,511 in outstanding commitments for construction projects with an additional \$341,744 in software in development contract commitments as of June 30, 2014.

During fiscal year 2014 NC State continued to build new facilities and work on renovations to modernize campus. Funding for these improvements came from funds provided by University debt financing, capital appropriations, gifts and state bonds and certificates of participation.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Following are some of the major construction projects that were completed or were in progress as of June 30, 2014.

Wolf Ridge Apartments, the first student housing ever built on Centennial Campus was completed in 2014. These six buildings total 550,446 square feet and offer space for 1,195 beds for upper-division and graduate students. Wolf Ridge combines modern architectural innovations, sustainable features and other amenities such as on-site dining at the new On the Oval facility, 24 hour desk service, The Packshop bookstore and a fitness center. This new complex provides Silver LEED certified green living spaces with unparalleled convenience to the NCSU community.

The six buildings, Tower Hall, Plaza Hall, Innovation Hall, Valley Hall, Grove Hall and Lakeview Hall, have two, three and four bedroom apartments and graduate studio lofts available. ADA accessible apartments are also available. Sustainability is one of the key features of these buildings. The property will have green rooftops, green spaces for community events, a 50,000 gallon cistern (which will use rain water and condensate from air conditioning units to address irrigation needs) and other elements that make it a leader in sustainable development.

Innovation Hall houses the Albright Entrepreneurs Living and Learning Village providing upper classman and graduate students across all academic disciplines the opportunity to live, socialize and work with entrepreneurial-minded students. Residents can explore and develop their entrepreneurial interests in an environment that fosters creativity and encourages innovation. It also includes the EI Garage, a business creation and prototyping space for N.C. State students with a passion for entrepreneurship. It will provide students a community to work within the context of real-world problems to find solutions to critical thinking, creative problem solving and new business creation. The EI Garage includes a prototyping studio, shop areas, breakout rooms and a work yard/patio outdoor area.

The University completed major upgrades of the Yarbrough Drive Steam Plant and Cates Utility Plant. These renovations were made to improve efficiency, capacity and reliability, replace inefficient boilers and waste reduction by using the existing facilities.

Yarbrough Drive Steam Plant is one of the older buildings on campus dating to the 1920's, and it used a great amount of energy and generated a lot of heat. The University is attempting LEED Silver Certification by replacing inefficient boilers, providing improved ventilation, repairing the building envelope, and managing construction materials. By renovating a previously existing building, demolition waste is reduced and an iconic, historically significant structure is maintained. Energy savings is met by restoring windows, which reduces the amount of demolition waste, the historical quality of the building is maintained as is the reduction of need for artificial lighting.

Cates Utility Plant renovation replaces inefficient boilers with high efficiency gas combustion turbines and heat recovery steam generators that will cogenerate steam and electricity. A high efficiency centrifugal chiller and cooler tower were added to replace older, less efficient

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

equipment. This new chilled water equipment will add capacity, reliability and improve the efficiency of the Utility Plant.

Major renovation work continues on the Talley Student center. Some of the major benefits of this renovation will be expanded food service operations, a new location for the main NC State Bookstores, larger, a more flexible Grand Ballroom, more outdoor space, improved information services, and more lounge areas complete with Wi-Fi access and more power outlets. The new Talley will be LEED Silver Certified. Work is estimated to be completed in the spring of 2015.

### Long-Term Debt Activities

The University incurs long-term debt to finance construction projects, to purchase equipment using lease arrangements and to provide for accumulated unused vacation benefits for employees. As shown in the following chart, the University decreased its long-term debt during fiscal year 2014.

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Bonds Payable	\$ 513,605,465	\$ 528,657,654	\$ (15,052,189)
Capital Leases Payable	566,674	630,801	(64,127)
Notes Payable	80,591,566	79,497,894	1,093,672
Compensated Absences	<u>62,743,620</u>	<u>62,849,417</u>	<u>(105,797)</u>
Total Long-term Liabilities	<u>\$ 657,507,325</u>	<u>\$ 671,635,766</u>	<u>\$ (14,128,441)</u>

Long-term liabilities fell by \$14.1 million, primarily due to regular scheduled bond principal payments. There was a new \$3.0 million note for the Carol Johnson Pool Clubhouse, but that was also partially offset by note principal payments. Compensated absences and capital lease both had small decreases.

### Economic Factors That Will Affect the Future

The State of North Carolina continues to experience little growth in state revenues, which have been diminished somewhat by recent tax reform legislation passed by the 2013 General Assembly. The state's unemployment rate is 6.5% (July, 2014) which is above the national average of 6.2%. The state's Medicaid expenditures continue to exceed budgeted levels, which adds additional strain to the state budget.

The North Carolina General Assembly passed and the Governor signed a 2014-15 Appropriation Bill that reduced NC State University's state appropriated funds by \$7.1 million for 2014-15. The Appropriation bill included recurring state operating funds of \$4.7 million for anticipated 2014-15 enrollment change, although in future years the University is planning for only very gradual enrollment growth that is focused on graduate students. The University received \$2 million for repairs and renovations for facilities and infrastructure, \$4 million for salary increases and associated benefits, and \$10.3 million in additional tuition receipts from increases approved by the UNC Board of Governors in February 2014. The University administration has elected to absorb the 2014-15 budget

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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reduction through University reserve funds but directed the campus deans and unit administrators to provide salary increases averaging 3% to faculty and professional staff.

Due to the significant tax changes and uncertainty of Medicaid costs noted above, it is too early in the fiscal year to obtain a reasonable measure of the State budget for fiscal year 2014-15. However, the state's 2014-15 appropriation includes \$250 million of unobligated funds. It is also too early in the fiscal year to ignore the potential for additional state budget reversions or reductions, especially if the state's unemployment rate grows or the national economy falters dramatically. By covering this year's state budget reduction with University reserves the remaining unallocated University reserves are minimal which may challenge the University administration in absorbing shortfalls in tuition collections or significant one-time costs related to natural disasters or other unforeseen events.

The University's projected enrollment growth through 2020 has been revised to flatten and somewhat stabilize undergraduate and master's degree enrollment with a focus on growing doctoral enrollment, especially in the STEM (Science, Technology, Engineering, Mathematics) disciplines. The quality of the undergraduate student body continues to increase and retention and graduation rates have improved with graduating student debt at a very modest level among major public research universities. The University continues to be rated as one of the country's best values in higher education according to *Kiplinger's Best College Values*, *The Princeton Review*, and the *Fiske Guide*.

**North Carolina State University**  
**Statement of Net Position**  
**June 30, 2014**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 255,320,189
Restricted Cash and Cash Equivalents	98,681,826
Receivables, Net (Note 4)	65,961,586
Due from Primary Government	8,195,104
Due from State of North Carolina Component Units	4,044,198
Inventories	5,434,427
Notes Receivable, Net (Note 4)	3,253,352

Total Current Assets	440,890,682
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	95,140,075
Endowment Investments	205,009,696
Restricted Investments	168,040,853
Other Investments	25,585
Notes Receivable, Net (Note 4)	9,216,386
Capital Assets - Nondepreciable (Note 5)	168,251,108
Capital Assets - Depreciable, Net (Note 5)	1,780,577,286

Total Noncurrent Assets	2,426,260,989
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Total Assets	2,867,151,671
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**DEFERRED OUTFLOWS OF RESOURCES**

Accumulated Decrease in Fair Value of Hedging Derivatives (Note 9)	11,972,586
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	39,497,389
Due to Primary Government	247,178
Due to State of North Carolina Component Units	469,764
Unearned Revenue	33,906,452
Interest Payable	4,587,261
Short-Term Debt (Note 7)	10,000,000
Long-Term Liabilities - Current Portion (Note 8)	19,499,578

Total Current Liabilities	108,207,622
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Noncurrent Liabilities:

Accounts Payable and Accrued Liabilities	73,485
Deposits Payable	1,532,667
Funds Held for Others	26,483,324
U. S. Government Grants Refundable	5,674,511
Funds Held in Trust for Pool Participants	168,100,343
Hedging Derivative Liability (Note 9)	11,972,586
Long-Term Liabilities, Net (Note 8)	638,007,747

Total Noncurrent Liabilities	851,844,663
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Total Liabilities	960,052,285
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**North Carolina State University**  
**Statement of Net Position**  
**June 30, 2014**

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

**DEFERRED INFLOWS OF RESOURCES**

0

**NET POSITION**

Net Investment in Capital Assets	1,326,687,511
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	11,053,344
Endowed Professorships	67,652,785
Departmental Uses	8,689,725
Loans	7,493,757
Expendable:	
Scholarships and Fellowships	28,013,757
Research	16,226,751
Endowed Professorships	63,412,118
Departmental Uses	43,595,849
Loans	1,800,813
Capital Projects	70,962,222
Debt Service	17,242,640
Unrestricted	<u>256,240,700</u>
Total Net Position	<u>\$ 1,919,071,972</u>

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

**North Carolina State University**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 11)	\$ 254,088,086
Federal Appropriations	19,849,729
Federal Grants and Contracts	140,749,996
State and Local Grants and Contracts	35,337,665
Nongovernmental Grants and Contracts	71,843,222
Sales and Services, Net (Note 11)	212,574,989
Interest Earnings on Loans	265,047
Other Operating Revenues, Net (Note 11)	18,022,482

Total Operating Revenues	752,731,216
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	813,311,685
Supplies and Materials	112,422,816
Services	200,405,753
Scholarships and Fellowships	45,125,241
Utilities	36,820,865
Depreciation/ Amortization	77,866,410

Total Operating Expenses	1,285,952,770
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Operating Loss	(533,221,554)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	473,005,231
Noncapital Grants - Student Financial Aid	48,015,586
Noncapital Grants	1,050,069
Noncapital Gifts	66,330,666
Investment Income (Net of Investment Expense of \$636,037)	26,327,347
Interest and Fees on Debt	(8,737,685)
Federal Interest Subsidy on Debt	1,125,481
Other Nonoperating Expenses	(1,893,861)

Net Nonoperating Revenues	605,222,834
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Income Before Other Revenues	72,001,280
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Capital Appropriations	12,245,901
Capital Grants	1,962,882
Capital Gifts	2,793,856
Additions to Endowments	6,056,243

Increase in Net Position	95,060,162
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**NET POSITION**

Net Position - July 1, 2013	1,824,011,810
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Net Position - June 30, 2014	\$ 1,919,071,972
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The accompanying notes to the financial statements are an integral part of this statement.

**North Carolina State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 726,933,103
Payments to Employees and Fringe Benefits	(817,340,999)
Payments to Vendors and Suppliers	(360,047,041)
Payments for Scholarships and Fellowships	(45,125,241)
Loans Issued	(2,147,770)
Collection of Loans	1,917,074
Interest Earned on Loans	265,801
Other Receipts	18,089,394
	<hr/>
Net Cash Used by Operating Activities	(477,455,679)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	473,005,231
Noncapital Grants - Student Financial Aid	48,015,586
Noncapital Grants	784,382
Noncapital Gifts	66,330,666
Additions to Endowments	6,056,243
William D. Ford Direct Lending Receipts	113,750,601
William D. Ford Direct Lending Disbursements	(113,572,204)
Related Activity Agency Receipts	49,387,287
Related Activity Agency Disbursements	(44,874,120)
External participation in Investment Fund Receipts	42,548,889
External participation in Investment Fund Disbursements	(10,944,823)
Other Receipts	1,764,963
	<hr/>
Net Cash Provided by Noncapital Financing Activities	632,252,701

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

Proceeds from Capital Debt	13,049,447
State Capital Appropriations	12,245,901
Capital Grants	1,468,765
Capital Gifts	2,781,637
Proceeds from Sale of Capital Assets	310,840
Acquisition and Construction of Capital Assets	(183,407,641)
Principal Paid on Capital Debt and Leases	(15,444,902)
Interest and Fees Paid on Capital Debt and Leases	(9,864,488)
Federal Interest Subsidy on Debt Received	1,125,481
Other Payments	(787,026)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(178,521,986)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	24,242,550
Investment Income	201,536
Purchase of Investments and Related Fees	(55,679,123)
	<hr/>
Net Cash Used by Investing Activities	(31,235,037)
Net Decrease in Cash and Cash Equivalents	(54,960,001)
Cash and Cash Equivalents - July 1, 2013	504,102,091
	<hr/>
Cash and Cash Equivalents - June 30, 2014	\$ 449,142,090

**North Carolina State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

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

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

Operating Loss	\$ (533,221,554)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	77,866,410
Allowances, Write-Offs, and Amortizations	170,631
Changes in Assets and Liabilities:	
Receivables, Net	(8,147,139)
Due from Primary Government	(230,021)
Inventories	(143,274)
Notes Receivable, Net	(205,254)
Accounts Payable and Accrued Liabilities	(7,410,446)
Due to Primary Government	(6,677,139)
Due to State of North Carolina Component Units	(111,466)
Unearned Revenue	281,528
Compensated Absences	(105,796)
Deposits Payable	477,841
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (477,455,679)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 255,320,189
Restricted Cash and Cash Equivalents	98,681,826
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	95,140,075
	<hr/>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 449,142,090</u></u>

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

Assets Acquired through a Gift	\$ 12,219
Change in Fair Value of Investments	22,780,802
Loss on Disposal of Capital Assets	(3,917,813)
Amortization of Bond Premiums	(1,627,189)

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



**North Carolina State University Foundations**  
**Statement of Financial Position**  
**June 30, 2014**

**Exhibit B-1**

	<b>North Carolina State University Foundation, Inc.</b>	<b>NC State Student Aid Association, Inc.</b>	<b>The North Carolina Agricultural Foundation, Inc.</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 14,867,639	\$ 16,250,415	\$ 30,607,477
Investments	12,556,840	34,964,490	4,866,490
Investments with University Investment Pool	189,494,314		58,318,763
Cash Surrender Value of Life Insurance	263,182	118,082	72,332
Assets Held in Charitable Trusts and Annuities	29,556,382	1,669,069	5,243,651
Real Estate Held for Resale	2,657,260	7,572,179	3,706,418
Receivables, Net	1,497,451	461,309	27,816
Pledges Receivable/Promises	68,812,475	23,032,623	11,024,535
Prepaid Expenses		162,646	
Notes/Loans Receivable, Net		300,000	4,962,424
Property and Equipment, Net	4,888,790	32,404,290	29,385,475
<b>Total Assets</b>	<b>324,594,333</b>	<b>116,935,103</b>	<b>148,215,381</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	832,551	1,036,214	336,326
Unearned Revenue		2,754,378	220,874
Interest Payable		12,570	
Funds Held for Others	816,848		
Split Interest Agreement Obligations	18,345,273	1,518,907	2,660,781
Notes Payable		2,020,250	
Bonds Payable		11,605,000	
<b>Total Liabilities</b>	<b>19,994,672</b>	<b>18,947,319</b>	<b>3,217,981</b>
<b>NET ASSETS</b>			
Unrestricted	10,634,064	30,571,528	2,351,685
Temporarily Restricted	91,905,561	31,450,288	68,027,268
Permanently Restricted	202,060,036	35,965,968	74,618,447
<b>Total Net Assets</b>	<b>\$ 304,599,661</b>	<b>\$ 97,987,784</b>	<b>\$ 144,997,400</b>

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

**North Carolina State University Foundations**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit B-2**

	<b>North Carolina State University Foundation, Inc.</b>	<b>NC State Student Aid Association, Inc.</b>	<b>The North Carolina Agricultural Foundation, Inc.</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
Revenues and Gains:			
Contributions	\$ 3,727	\$ 10,859,393	\$ 1,553,682
Donated Services and Noncash Contributions	1,108,000	468,381	1,412,000
Investment Income	60,227	430,058	129,142
Net Unrealized and Realized Gains on Long-Term Investments	1,725,466	3,845,604	779,536
Net Asset Reclassification - Underwater Endowments	14,866		
Executive Education, LLC Income	1,088,524		
Other	1,225,356	1,054,100	(366,430)
Total Unrestricted Revenues and Gains	5,226,166	16,657,536	3,507,930
Net Assets Released from Restrictions:			
Satisfaction of Program or Time Restrictions	14,894,542		10,155,172
Facility Improvements		7,279,901	
Total Net Assets Released from Restrictions	14,894,542	7,279,901	10,155,172
Total Unrestricted Revenues, Gains, and Other Support	20,120,708	23,937,437	13,663,102
Expenses and Losses:			
University Support	11,696,497	9,212,151	10,805,860
University Facilities Support	3,110,998	7,279,901	
Management and General	581,535	1,197,820	359,350
Fund Raising	2,652,929	2,616,771	2,203,060
Total Expenses	18,041,959	20,306,643	13,368,270
Loss on Sale of Assets		773	
Total Expenses and Losses	18,041,959	20,307,416	13,368,270
Increase in Unrestricted Net Assets	2,078,749	3,630,021	294,832
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>			
Contributions	8,003,701	6,944,420	9,528,185
Changes in Pledges Receivable	18,530,004		(2,675,029)
Donated Services and Noncash Contributions		1,600	
Grant Revenues			449,652
Investment Income	276,524	35,296	118,943
Net Unrealized and Realized Gains on Long-Term Investments	22,303,076	102,024	7,479,011
Net Asset Reclassification - Underwater Endowments	(14,866)		
Vaughn Towers Revenue		3,304,394	
Disposal of Other Assets			23,423
Other	686,349		(162,659)
Net Assets Released from Restrictions:			
Satisfaction of Program or Time Restrictions	(14,894,542)		(10,155,172)
Facility Improvements		(7,279,901)	
Increase in Temporarily Restricted Net Assets	34,890,246	3,107,833	4,606,354
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>			
Contributions	32,192,443	860,081	3,829,533
Changes in Pledges Receivable	469,572		118,750
Donated Services and Noncash Contributions	358,960		
Investment Income	90,453		67,529
Net Unrealized and Realized Gains on Long-Term Investments	1,561,243		125,545
Change in Value of Split Interest Agreements	(805,562)	222,911	(193,401)
Other	356,467		384,103
Increase in Permanently Restricted Net Assets	34,223,576	1,082,992	4,332,059
Increase in Net Assets	71,192,571	7,820,846	9,233,245
Net Assets at Beginning of Year	233,407,090	90,286,037	135,764,155
Restatements		(119,099)	
Net Assets at End of Year	\$ 304,599,661	\$ 97,987,784	\$ 144,997,400

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

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**NORTH CAROLINA STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

The accompanying financial statements present all funds belonging to the University and its component 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. See below for further discussion of the University's component units.

**Blended Component Units** - Although legally separate, the NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of six ex officio directors and five elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected directors of the Investment Fund are appointed by the members of the North Carolina State University Board of Trustees and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Corporation is governed by a Board of Directors appointed by the Chancellor of the University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on January 25, 2002, to develop, construct, own, finance, manage, and otherwise deal with a nonprofit hotel, golf course, conference center, and related meeting facilities on Centennial Campus as outlined in the Campus Master Plan. In addition, the Corporation formed NC State Upfit, LLC on October 27, 2006, to develop, construct, own, finance, manage, and otherwise upfit facilities and other infrastructure on Centennial Campus. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007, to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home LLC on August 8, 2007, and changed its name to Bell Tower Holdings LLC on December 14, 2009. The purpose of Bell Tower Holdings LLC is to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of real property and enter into any related agreements for assisting with the acquisition, development, financing, construction, management, and operation of real property. On March 31, 2008, the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Leaders in Innovation and Nonwovens Commercialization, LLC (LINC) was established on July 9, 2012, to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. Because the Corporation's Board is appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund and for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149. 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 blended component units is provided in Note 18.

**Discretely Presented Component Units** - The North Carolina State University Foundation, Inc. (Foundation), NC State Student Aid Association, Inc. (Athletic Club), and The North Carolina Agricultural

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Foundation, Inc. (Agricultural Foundation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation, Athletic Club, and Agricultural Foundation are legally separate, tax-exempt component units of the University. These entities act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. Separate Boards of Directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon, that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

The Foundation, Athletic Club, and Agricultural Foundation are private nonprofit organizations that report their 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 their financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2014, the Foundation distributed \$15,274,987 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2014, the Athletic Club distributed \$11,907,715 to the University for both restricted and unrestricted purposes. Complete financial statements for the Athletic Club can be obtained from the NC State Student Aid Association, PO Box 37100, Raleigh, NC 27627, or by calling (919) 865-1500.

During the year ended June 30, 2014, the Agricultural Foundation distributed \$12,291,503 to the University for both restricted and unrestricted purposes. Complete financial statements for the Agricultural Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes 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. The fair value for investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc.'s custodian, Bank of New York Mellon. University management reviews the values provided by the custodian. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated. Private equity funds consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported. However, real estate held as quasi-endowments or principally for other than investment purposes is reported at cost.

Restricted investments include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but invested through the Investment Fund.

- 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 and merchandise for resale, are valued at cost using the first-in, first-out method. Exceptions are the bookstore, which uses the retail inventory method, and physical plant, which uses the moving weighted average 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 except for internally generated software which is capitalized



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, 4 to 22 years for equipment, and 2 to 15 years for computer software.

The University does not capitalize its Art and Design or Historic collections. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- 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. Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.
- K. 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.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refunding and issuance costs on bonds payable are not material to the accompanying financial statements and are expensed in the year incurred.

- L. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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(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.

**M. 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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

**Unrestricted Net Position** - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

**N. 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.

**O. 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 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.

**P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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customers. These institutional auxiliary operations include activities such as Central Stores, the Creamery, Telecommunications, Physical Plant, and Motor Pool. 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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$446,368,324 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 1.3 years as of June 30, 2014. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Cash on hand at June 30, 2014, was \$456,360. The carrying amount of the University's deposits not with the State Treasurer was \$2,317,406 and the bank balance was \$4,776,936. 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 follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, all funds belonging to the University are deposited with the State Treasurer pursuant to G.S.147-77 and G.S. 147-69.1. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. The University does not have a deposit policy for custodial credit risk. As of June 30, 2014, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$3,798,175.

- B. Investments** - 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.

Additionally, the University has also been delegated authority by the President of The University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds 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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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before the date funds are expected to be required for expenditure or withdrawal.

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

Investments of the endowment funds including those invested in the Investment Fund, a University component unit, 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.

**Investment Fund** - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. The Endowment Fund of North Carolina State University, The North Carolina Agricultural Foundation, Inc., and the North Carolina State University Foundation, Inc. represent the Investment Fund’s internal participants. The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. are discretely presented component units in the accompanying financial statements. Other affiliated organizations not included in the University’s reporting entity represent the Pool’s external participants. The external portion of the Pool is presented in the accompanying financial statements as “Funds Held in Trust for Pool Participants.”

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Investment Fund is not subject to any formal oversight other than that provided by the Investment Fund Members Board or its Board of Directors. The Members Board is responsible for adopting investment objectives and policies and for monitoring policy implementation and investment performance. The Members Board has chosen not to make individual security selection decisions. The Board of Directors has the responsibility to oversee the allocation of the Investment Fund's portfolio among the asset classes, investment vehicles, and investment managers.

Bank of New York Mellon is the custodian for the Pool and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments. The annual financial report for the Investment Fund may be obtained from the Foundations Accounting and Investment Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149 or at <http://foundationsaccounting.ofb.ncsu.edu/investment-fund/>.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the Investment Fund.

### *Investment Fund*

	Fair Value	Investment Maturities (in Years) Less Than 1
<b>Investment Type</b>		
Debt Securities		
Collective Investment Funds	\$ 40,898,271	\$ 40,898,271
Other Securities		
UNC Investment Fund	525,674,903	
Private Equity Limited Partnerships	30,297,447	
<b>Total External Investment Pool</b>	\$ 596,870,621	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2014, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on S&P's ratings):

	Fair Value	AA Aa	A	BB/Ba and below	Unrated
Collective Investment Funds	\$ 40,898,271	\$ 5,708,730	\$ 5,429,194	\$ 728,090	\$ 29,032,257

**UNC Investment Fund, LLC** - At June 30, 2014, the University's investments include \$525,674,903 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. 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, 2014, for the University's non-pooled investments.

### *Non-Pooled Investments*

	Fair Value / Cost	Investment Maturities (in Years) Less Than 1
<b>Investment Type</b>		
Debt Securities		
Money Market Mutual Funds	\$ 952,464	\$ 952,466
Other Securities		
Investments in Real Estate	22,990,938	
Domestic Stocks	25,585	
Collections and Mineral Rights	49,603	
<b>Total Non-Pooled Investments</b>	<b>\$ 24,018,590</b>	



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2014, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure (based on Moody's and S&P ratings):

	Fair Value	AAA Aaa
Money Market Mutual Funds	\$ 952,464	\$ 952,464

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2014:

	Fair Value / Cost
<b>Investment Type</b>	
Debt Securities	
Collective Investment Funds	\$ 40,898,271
Money Market Mutual Funds	952,464
Other Securities	
UNC Investment Fund	525,674,903
Investments in Real Estate	22,990,938
Private Equity Limited Partnerships	30,297,447
Domestic Stocks	25,585
Other	49,603
<b>Total Investments</b>	<b>\$ 620,889,211</b>

Total investments include \$247,813,077 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

### NOTE 3 - ENDOWMENT INVESTMENTS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long term investment pool (for a 20 quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted and unrestricted, expendable net position endowment balances to make up the difference. At June 30, 2014, net appreciation of \$135,636,451 was available to be spent, of which \$119,491,873 was restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 2,616,076	\$ 1,423,183	\$ 1,192,893
Student Sponsors	2,294,244		2,294,244
Accounts	28,707,968	1,019,247	27,688,721
Intergovernmental	34,435,626		34,435,626
Interest on Loans	412,207	367,776	44,431
Federal Interest Subsidy on Debt	305,671		305,671
<b>Total Current Receivables</b>	<u>\$ 68,771,792</u>	<u>\$ 2,810,206</u>	<u>\$ 65,961,586</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 3,022,259	\$ 15,475	\$ 3,006,784
Institutional Student Loan Programs	248,675	2,107	246,568
<b>Total Notes Receivable - Current</b>	<u>\$ 3,270,934</u>	<u>\$ 17,582</u>	<u>\$ 3,253,352</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 9,586,439	\$ 633,960	\$ 8,952,479
Institutional Student Loan Programs	401,001	137,094	263,907
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 9,987,440</u>	<u>\$ 771,054</u>	<u>\$ 9,216,386</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 36,617,019	\$ 2,194,116	\$ 0	\$ 38,811,135
Construction in Progress	247,093,834	47,014,106	165,541,896	128,566,044
Computer Software in Development	6,220,164	2,519,126	7,865,361	873,929
<b>Total Capital Assets, Nondepreciable</b>	<b>289,931,017</b>	<b>51,727,348</b>	<b>173,407,257</b>	<b>168,251,108</b>
Capital Assets, Depreciable:				
Buildings	1,770,800,729	247,880,205	4,940,413	2,013,740,521
Machinery and Equipment	319,886,981	34,150,120	21,337,955	332,699,146
General Infrastructure	197,094,366	5,124,565		202,218,931
Computer Software	7,235,422	7,865,361		15,100,783
<b>Total Capital Assets, Depreciable</b>	<b>2,295,017,498</b>	<b>295,020,251</b>	<b>26,278,368</b>	<b>2,563,759,381</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	478,418,735	50,837,974	3,590,942	525,665,767
Machinery and Equipment	197,858,640	20,156,512	18,458,774	199,556,378
General Infrastructure	48,470,763	4,924,846		53,395,609
Computer Software	2,617,263	1,947,078		4,564,341
<b>Total Accumulated Depreciation/Amortization</b>	<b>727,365,401</b>	<b>77,866,410</b>	<b>22,049,716</b>	<b>783,182,095</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>1,567,652,097</b>	<b>217,153,841</b>	<b>4,228,652</b>	<b>1,780,577,286</b>
<b>Capital Assets, Net</b>	<b>\$ 1,857,583,114</b>	<b>\$ 268,881,189</b>	<b>\$ 177,635,909</b>	<b>\$ 1,948,828,394</b>

During the year ended June 30, 2014, the University incurred \$22,542,327 in interest costs related to the acquisition and construction of capital assets. Of this total, \$9,438,954 was charged in interest expense, and \$13,103,373 was capitalized.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

Current Accounts Payable and Accrued Liabilities	Amount
Accounts Payable	\$ 16,778,669
Accounts Payable - Capital	8,890,538
Accrued Payroll	7,400,207
Contract Retainage	6,374,037
Intergovernmental Payables	790
Other	53,148
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 39,497,389</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - SHORT-TERM DEBT – COMMERCIAL PAPER PROGRAM

The University has available Commercial Paper Program financing for short-term credit up to \$100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2014, \$10,000,000 in Tax-Exempt Commercial Paper was outstanding.

Short-term debt activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Draws	Repayments	Balance June 30, 2014
Commercial Paper Program	\$ 0	\$ 10,000,000	\$ 0	\$ 10,000,000

### NOTE 8 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 501,915,000	\$ 0	\$ 13,425,000	\$ 488,490,000	\$ 12,935,000
Plus: Unamortized Premium	26,742,654		1,627,189	25,115,465	
Total Revenue Bonds Payable	528,657,654		15,052,189	513,605,465	12,935,000
Notes Payable	79,497,894	3,049,447	1,955,775	80,591,566	3,025,857
Capital Leases Payable	630,801	209,813	273,940	566,674	274,687
Compensated Absences	62,849,417	39,062,615	39,168,412	62,743,620	3,264,034
<b>Total Long-Term Liabilities</b>	<b>\$ 671,635,766</b>	<b>\$ 42,321,875</b>	<b>\$ 56,450,316</b>	<b>\$ 657,507,325</b>	<b>\$ 19,499,578</b>

Additional information regarding capital lease obligations is included in Note 10.

## 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, 2014	Principal Outstanding June 30, 2014
<b>GENERAL REVENUE</b>						
Housing System Projects / Doak Field Projects	2003B	3.46% swap*	10/01/2027	\$ 45,660,000	\$ 2,840,000	\$ 42,820,000
Various Construction Projects	2005A	5%	10/01/2015	81,615,000	72,830,000	8,785,000
Various Construction Projects	2008A	3.87% swap*	10/01/2028	66,605,000		66,605,000
Various Construction Projects	2008B	4% - 4.25%	10/01/2020	26,955,000	20,340,000	6,615,000
Various Construction Projects	2010A	4% - 5%	10/01/2022	18,065,000	3,860,000	14,205,000
Various Construction Projects	2010B	5.079% - 6.027%**	10/01/2035	59,565,000		59,565,000
Advance Refund Series 2003A	2012	3% - 5%	10/01/2018	16,265,000		16,265,000
Adv Refund 2005A / Wolf Ridge Housing	2013A	2% - 5%	10/01/2042	132,440,000		132,440,000
Adv Refund 2005A / Talley Student Union	2012B	0.466% - 4%	10/01/2041	141,650,000	460,000	141,190,000
<b>Total Revenue Bonds Payable (principal only)</b>				<u>\$ 588,820,000</u>	<u>\$ 100,330,000</u>	488,490,000
Plus: Unamortized Premium						25,115,465
<b>Total Revenue Bonds Payable</b>						<u>\$ 513,605,465</u>

\* For variable rate debt, interest rates in effect at June 30, 2014 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

\*\* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

### C. Demand Bonds - Included in bonds payable are several variable rate demand bond issues. 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 entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

**North Carolina State University at Raleigh Variable Rate General Revenue Bonds, Series 2003B:** On June 20, 2003, the University issued tax-exempt variable rate revenue demand bonds in the amount of \$45,660,000 that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Wells Fargo Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.13% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003, and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2014, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 12 quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the purchase date along with accrued interest at the Liquidity Provider rate. In the event the outstanding \$42,820,000 of demand bonds was "put" and not resold, the University would be required to pay \$15,000,000 a year for three years under this agreement assuming a 3.25% interest rate.

**North Carolina State University at Raleigh Variable Rate General Revenue Bonds, Series 2008A:** On July 10, 2008, the University issued tax-exempt variable rate revenue demand bonds in the amount of \$66,605,000 that have a final maturity date of October 1, 2028. The bonds

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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are subject to mandatory sinking fund redemption that begins on October 1, 2014. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2008A bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Citigroup Global Markets, Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wells Fargo Bank, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.39% of the available commitment, payable quarterly in arrears, beginning on October 1, 2012, and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the base rate (the greater of the bank prime commercial lending rate plus 1.0%, the federal funds rate plus 2.0%, or 7.0%) for 180 days. Beginning on day 181 (the amortization date), the Bank Bonds become Term Bonds and bear interest at the base rate plus 1.0%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. At June 30, 2014, there were no Bank Bonds held by the Liquidity Facility. The initial Liquidity Facility expiration date is July 6, 2015, unless otherwise extended based on the terms of the Agreement.

After the amortization date, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semiannual installments, rounded to the nearest Authorized Denomination, beginning the first business day of the month immediately following the commencement of the Term Bank Bond period. In the event the outstanding \$66,605,000 of demand bonds was "put" and not resold, the University would be required

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to pay \$25,000,000 a year for three years under this agreement assuming an 8.0% interest rate.

**D. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2014, are as follows:

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2015	\$ 12,935,000	\$ 16,574,328	\$ 2,745,089	\$ 3,025,857	\$ 3,304,199
2016	13,465,000	16,084,720	2,684,257	2,432,294	3,202,229
2017	13,985,000	15,659,796	2,546,054	5,763,708	3,050,031
2018	14,510,000	15,281,832	2,402,338	3,241,090	2,919,981
2019	14,140,000	14,899,288	2,252,920	3,699,075	2,772,449
2020-2024	79,490,000	70,541,939	8,645,505	26,222,541	10,919,507
2025-2029	97,760,000	62,101,950	1,740,090	34,233,540	3,965,702
2030-2034	88,455,000	42,026,763		1,973,461	60,936
2035-2039	78,310,000	24,602,123			
2040-2044	75,440,000	6,894,600			
<b>Total Requirements</b>	<b>\$ 488,490,000</b>	<b>\$ 284,667,339</b>	<b>\$ 23,016,253</b>	<b>\$ 80,591,566</b>	<b>\$ 30,195,034</b>

Interest on the variable rate 2003B revenue bonds is calculated at 0.04% at June 30, 2014

Interest on the variable rate 2008A revenue bonds is calculated at 0.07% at June 30, 2014

Interest rates are reset each week by the remarketing agent based upon University credit ratings 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 9 Derivative Instruments.

**E. Bond Defeasance** - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

**Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2014, the outstanding balance of prior year defeased bonds was \$47,465,000.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Compounded Interest	Principal Outstanding June 30, 2014
Energy Conservation Loan	BB&T	4.97%	06/01/2030	\$ 19,700,703	\$ 1,026,283	\$ 707,470	\$ 19,381,890
Energy Conservation Loan	Bank of America	4.07%	08/17/2028	56,060,010	2,307,719	3,522,938	57,275,229
Lonnie Poole Golf Course	Suntrust	Variable	01/30/2015	5,000,000	4,115,000		885,000
Carol Johnson Poole Clubhouse	Suntrust	Variable	07/30/2016	3,049,447			3,049,447
<b>Total Notes Payable</b>				<u>\$ 83,810,160</u>	<u>\$ 7,449,002</u>	<u>\$ 4,230,408</u>	<u>\$ 80,591,566</u>

### NOTE 9 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2014, are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2014	
		Classification	Increase (Decrease)	Classification	Liability
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap 2003B Bonds	\$ 24,655,000	Deferred Outflow of Resources	\$ (172,246)	Hedging Derivative Liability	\$ (3,935,377)
Pay-Fixed Interest Rate Swap 2008A Bonds	\$ 50,000,000	Deferred Outflow of Resources	\$ 415,283	Hedging Derivative Liability	\$ (8,037,209)
<b>Total Derivative Instruments</b>			<u>\$ 243,037</u>		<u>\$ (11,972,586)</u>

Hedging derivative instruments held at June 30, 2014, are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedges changes in cash flows on General Revenue 2003B Series Bonds	\$ 24,655,000	06/20/03	10/01/27	Pay 3.54% Receive 75% LIBOR
Pay-Fixed Interest Rate Swap	Hedges changes in cash flows on General Revenue 2008A Series Bonds	\$ 50,000,000	09/01/08	10/01/26	Pay 3.862% Receive SIFMA

As of June 30, 2014, the synthetic fixed interest rates on the swapped portion of the 2003B and 2008A bonds were 3.46% and 3.87%, respectively. The fair value of the pay-fixed interest rate swaps was estimated using the market value method. This method calculates the market price of traded instruments.

*Future Swaps:* The University has also entered into a future dated interest rate swap agreement for \$22,382,500 to be effective March 1, 2017, on the General Revenue Series 2008A bonds.

### *Hedging Derivative Risks*

*Credit Risk:* At June 30, 2014, the University was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A or better.

*Interest Rate Risk:* The University is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2014. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2014. Both of the swaps outstanding have termination dates greater than 12 years. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease.

*Basis Risk:* The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than Securities Industry and Financial Markets Association (SIFMA). Should the relationship between London Interbank Offering Rate (LIBOR) and SIFMA move to convergence, the expected cost savings may not be realized. The current outstanding swaps and the related bonds reset rates weekly and pay monthly. As of June 30, 2014, the SIFMA rate was 0.06%, whereas 75% of LIBOR was 0.12%.

*Termination Risk:* The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

*Rollover Risk:* By definition, the University is exposed to rollover risk because the swap related to the 2008A bonds terminates October 1, 2026, two years before the related bonds mature on October 1, 2028. It is not the intent of the University, at this time, to re-hedge the bonds.

### NOTE 10 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to 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, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 274,687
2016	199,508
2017	57,399
2018	40,002
2019	5,252
Total Minimum Lease Payments	576,848
Amount Representing Interest (1.05 - 1.5% Rate of Interest)	10,174
<b>Present Value of Future Lease Payments</b>	<b>\$ 566,674</b>

Machinery and equipment acquired under capital lease amounted to \$1,059,883 at June 30, 2014.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$359,970 at June 30, 2014.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Operating Lease Obligations** - The University entered into operating leases for equipment and property rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 6,794,805
2016	4,739,647
2017	3,900,772
2018	3,414,361
2019	3,217,753
2020-2024	15,126,540
2025-2029	12,857,790
2030-2034	1,530
2035-2039	1,528
2010-2044	1,523
2045-2049	1,520
2050-2054	1,520
2055-2059	1,520
2060-2064	457
<b>Total Minimum Lease Payments</b>	<b>\$ 50,061,266</b>

Rental expense for all operating leases during the year was \$7,861,331.

### NOTE 11 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>					
Student Tuition and Fees	\$ 336,005,997	\$ 509,820	\$ 81,255,535	\$ 152,556	\$ 254,088,086
Sales and Services	\$ 289,110,775	\$ 58,144,032	\$ 18,306,767	\$ 84,987	\$ 212,574,989
Other Operating Revenue	\$ 21,759,573	\$ 3,804,003	\$ 0	\$ (66,912)	\$ 18,022,482

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12 - 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/ Amortization	Total
Instruction	\$ 331,085,451	\$ 19,520,695	\$ 31,387,988	\$ 0	\$ 3,496	\$ 0	\$ 381,997,630
Research	167,709,106	15,514,973	54,484,316		1,102,141		238,810,536
Public Service	81,156,372	10,861,614	27,745,204		443,758		120,206,948
Academic Support	43,579,479	14,189,949	18,938,881		20,357		76,728,666
Student Services	16,535,092	1,470,616	6,081,351		218,970		24,306,029
Institutional Support	66,165,622	1,334,463	13,573,894		7,299		81,081,278
Operations and Maintenance of Plant	36,452,041	10,352,021	8,199,406		28,527,145		83,530,613
Student Financial Aid	1,078,498	46,696	1,001,840	45,125,241			47,252,275
Auxiliary Enterprises	69,550,024	39,131,789	38,992,873		6,497,699		154,172,385
Depreciation/Amortization						77,866,410	77,866,410
<b>Total Operating Expenses</b>	<b>\$ 813,311,685</b>	<b>\$ 112,422,816</b>	<b>\$ 200,405,753</b>	<b>\$ 45,125,241</b>	<b>\$ 36,820,865</b>	<b>\$ 77,866,410</b>	<b>\$ 1,285,952,770</b>

### NOTE 13 - PENSION PLANS

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

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

Benefit and contribution provisions for the TSERS are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended

June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$685,181,648, of which \$305,353,765 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$26,535,242 and \$18,321,226, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$26,535,242, \$25,503,618, and \$22,231,989, 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 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, 2014, 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 \$685,181,648, of which \$249,945,411 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$17,096,266 and \$14,996,725, respectively.

- B. Federal Employment Retirement** - The Federal Retirement System is a multiple-employer retirement system and is composed of three retirement

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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programs: the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1987, the Federal Employees Retirement System (FERS) for participants employed after January 1, 1987, and the Civil Service Retirement Offset System for reemployed CSRS employees.

North Carolina Cooperative Extension employees with federal appointments prior to January 1, 1987, participate in the CSRS. Currently, 29 employees participate in CSRS. Participating employees and the University are required by federal statute to contribute 7% of salary to CSRS. In addition, the CSRS employees may contribute to the Thrift Savings Plan (a defined contribution plan managed by the Federal Retirement Thrift Investment Board) up to the annual IRS annual elective limits with no agency matching contributions. Total employee and employer contributions for CSRS for the year ended June 30, 2014, was \$190,524 and \$210,564 respectively. Employees covered under CSRS contributed \$36,713 to the Thrift Savings Plan.

Under the FERS, employees are required to contribute 0.8% of salary and the University 11.9%. Currently, six employees participate in FERS. In addition, the FERS employees may contribute to the Thrift Savings Plan up to the annual IRS annual elective limits with an agency matching contribution on up to 5.0% of the employee's contribution. Total employee and employer contributions for the year ended June 30, 2014, were \$5,522 and \$82,144 respectively. For employees covered under FERS the total employee and employer contributions to the Thrift Savings Plan for the year ended June 30, 2014, were \$81,078 and \$34,109 respectively.

### **NOTE 14 - 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For the current fiscal year the University contributed 5.40% 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, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$29,986,156, \$28,822,840, and \$26,143,971, 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, 2014, 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, 2013, and 2012,



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$2,443,316, \$2,392,840, and \$2,718,973, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 15 - RISK MANAGEMENT

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. University departments, as an individual business decision, may also purchase through the Fund primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for computers and "miscellaneous equipment" on a scheduled basis. Flood insurance may also be purchased through the Fund for qualifying assets. Receipts-supported auxiliary units insure assets for additional perils coverage, as per the options noted above, in addition to the fire and lightning perils. General-funded departments and units insure for the perils of fire and lightning with the exception of certain coastal properties which are also insured for extended coverage perils and the peril of flood.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$1,000,000 per occurrence. The applicable deductible is \$25,000 per occurrence.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and the State's Agent of Record. The types of insurance policies purchased include: medical professional liability, veterinary professional liability, fine arts property, master crime, inland marine property for musical instruments, campers accident and sickness, athletic accident, boiler and machinery, watercraft, oceanographic equipment, and nuclear energy liability.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$34,242,511 and on other purchases were \$341,744 at June 30, 2014.

The University has amended the Use Agreement for the PNC Arena with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling \$6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was \$3,825,000 as of June 30, 2014.

- B. Pending Litigation and Claims** - As previously reported, the Environmental Protection Agency (EPA) filed a civil action against the University pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The complaint sought relief that would cause the University to enter into remediation of a hazardous waste site known as "Lot 86." The University is involved in ongoing discussions and negotiations with the EPA concerning the appropriate means for addressing the remediation. A Consent Decree executed by North Carolina State University and the EPA has been approved by the Court. Remedial clean-up pursuant to the Consent Decree continues. The remediation costs remaining are estimated to be approximately \$1,600,000.

As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately \$6,749,207 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the University has transferred \$2,273,817 to the Office of State Budget and Management leaving approximately \$4,475,390 still outstanding. Since July 2005, the University has been forwarding transportation fine collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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As previously reported, on September 16, 2005, Ward Transformer Company, Inc. and related entities (collectively the “Ward Performing Parties”) entered into a Settlement Agreement with the United States Environmental Protection Agency (“EPA”). In the Agreement, the Ward Performing Parties agreed to fund and carry out a removal action to address PCB contamination at and in the vicinity of the 11 acre Ward Transformer facility on Mount Herman Road near the Raleigh-Durham International Airport. It is currently estimated that the removal action will involve the excavation and onsite treatment or offsite disposal of approximately 60,000 cubic yards, or about 220,000 tons, of PCB contaminated soils. Current estimates indicate that the costs may be in the range upwards of \$70,000,000 (the University would be responsible for a portion of this amount). The Ward Performing Parties have notified NC State that they believe that the University is responsible for some of the PCB contamination because NC State allegedly had Ward repair and refurbish transformers during the 1960’s through the 1990’s. On March 24, 2010, the Court granted the University’s Motion to Dismiss based on the 11th Amendment sovereign immunity. However, this case is still open pending an appeal by the plaintiffs. In January 2013, the EPA indicated its desire to pursue a global settlement involving all parties for all past and future remediation costs, and indicated that parties not participating in the global settlement negotiations will face enforcement action by the EPA. As the University would not have a sovereign immunity defense available in an enforcement action brought by the EPA, on March 5, 2013, the University communicated its intent to participate in future global settlement negotiations with the EPA. Such negotiations have not yet begun and it is too early to determine the potential costs to the University.

The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 17 - RELATED PARTIES

**Foundations** - There are 10 separately incorporated nonprofit foundations associated with the University. These foundations are The North Carolina Agricultural Foundation, Inc., North Carolina State University Foundation, Inc., North Carolina Tobacco Foundation, Inc., North Carolina State University College of Sciences Foundation, Inc., North Carolina Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., NC State Natural Resources Foundation, Inc., North Carolina Textile Foundation,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Inc., NC State Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. As described in Note 1 to the financial statements, The North Carolina Agricultural Foundation, Inc., the North Carolina State University Foundation, Inc., and the NC State Student Aid Association, Inc. are considered component units of the University for reporting purposes and their financial statements are presented separately as part of the University's financial statements. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the other foundations, except for support from each organization to the University. This support of the foundations, excluding amounts from The North Carolina Agricultural Foundation, Inc., the North Carolina State University Foundation, Inc., and the NC State Student Aid Association, Inc. approximated \$17,460,681 for the year ended June 30, 2014.

**Reynolds Coliseum** - The NC State Student Aid Association has agreed to fund \$20,000,000 of the \$35,000,000 project to renovate the University's Reynolds Coliseum.

**Nonprofit Corporation** - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing, and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events, and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or \$50,064 for each men's and \$21,903 for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance. In fiscal year 2012, the name of the ESA was changed to "PNC Arena."

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In fiscal year 2008, the University entered a Capital Improvement Plan Agreement with the Authority to pay \$6,000,000 in quarterly installments over the next 15 years.

### NOTE 18 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2014, is presented as follows:

#### *Condensed Statement of Net Position*

*June 30, 2014*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 437,049,184	\$ 1,294,242	\$ 2,714,256	\$ (167,000)	\$ 440,890,682
Capital Assets	1,928,501,734		20,326,660		1,948,828,394
Other Noncurrent Assets	165,778,099	349,057,544	1	(37,403,048)	477,432,595
Total Assets	<u>2,531,329,017</u>	<u>350,351,786</u>	<u>23,040,916</u>	<u>(37,570,048)</u>	<u>2,867,151,671</u>
Deferred Outflows of Resources	<u>11,972,586</u>				<u>11,972,586</u>
<b>LIABILITIES</b>					
Current Liabilities	105,929,367	280,747	1,830,508	167,000	108,207,622
Noncurrent Liabilities	808,330,603		6,111,012	37,403,048	851,844,663
Total Liabilities	<u>914,259,970</u>	<u>280,747</u>	<u>7,941,520</u>	<u>37,570,048</u>	<u>960,052,285</u>
Deferred Inflows of Resources					
<b>NET POSITION</b>					
Net Investment in Capital Assets	1,313,256,264		13,431,247		1,326,687,511
Restricted - Nonexpendable	(255,181,428)	350,071,039	2		94,889,611
Restricted - Expendable	241,107,191		146,959		241,254,150
Unrestricted	254,719,510		1,521,190		256,240,700
Total Net Position	<u>\$ 1,553,901,537</u>	<u>\$ 350,071,039</u>	<u>\$ 15,099,396</u>	<u>\$ 0</u>	<u>\$ 1,919,071,972</u>

1 Total investments in the NC State Investment Fund, Inc. audit report included \$247,813,077 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements. See Note 2 to the financial statements. It will therefore be excluded from the Condensed Statement of Net Position and the Condensed Statement of Revenues, Expenses, and Changes in Net Position.

2 Restricted Nonexpendable assets are held in the NC State Investment Fund, Inc. while the associated liabilities are held in North Carolina State University statements resulting in a negative net position before blending.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2014*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
<b>OPERATING REVENUES</b>					
Operating Revenues	\$ 750,137,914	\$ 0	\$ 7,165,316	\$ (4,572,014)	\$ 752,731,216
<b>OPERATING EXPENSES</b>					
Operating Expenses	1,205,869,101	1,228,001	6,598,928	(5,609,670)	1,208,086,360
Depreciation/Amortization	77,423,851		442,559		77,866,410
Total Operating Expenses	1,283,292,952	1,228,001	7,041,487	(5,609,670)	1,285,952,770
Operating Income (Loss)	(533,155,038)	(1,228,001)	123,829	1,037,656	(533,221,554)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	473,005,231				473,005,231
Noncapital Grants	49,065,655				49,065,655
Noncapital Gifts	66,330,666				66,330,666
Investment Income	(25,291,700)	51,619,047			26,327,347
Other Nonoperating Expenses	(9,454,084)		(51,981)		(9,506,065)
Net Nonoperating Revenues (Expenses)	553,655,768	51,619,047	(51,981)		605,222,834
Capital Appropriations	12,245,901				12,245,901
Capital Grants	1,962,882				1,962,882
Capital Gifts	1,128,218		2,703,294	(1,037,656)	2,793,856
Additions to Endowments	5,890,542	165,701			6,056,243
Increase in Net Position	41,728,273	50,556,747	2,775,142		95,060,162
<b>NET POSITION</b>					
Net Position, July 1, 2013	1,512,173,264	299,514,292	12,324,254		1,824,011,810
Net Position, June 30, 2014	\$ 1,553,901,537	\$ 350,071,039	\$ 15,099,396	\$ 0	\$ 1,919,071,972

### *Condensed Statement of Cash Flows June 30, 2014*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Total
Net Cash Used by Operating Activities	\$ (476,625,506)	\$ 0	\$ (830,173)	\$ (477,455,679)
Net Cash Provided by Noncapital Financing Activities	632,252,701			632,252,701
Net Cash Provided (Used) by Capital and Related Financing Activities	(179,078,216)		556,230	(178,521,986)
Net Cash Used by Investing Activities	(29,378,369)	(1,785,643)	(71,025)	(31,235,037)
Net Decrease in Cash and Cash Equivalents	(52,829,390)	(1,785,643)	(344,968)	(54,960,001)
Cash and Cash Equivalents, July 1, 2013	498,273,498	3,079,885	2,748,708	504,102,091
Cash and Cash Equivalents, June 30, 2014	\$ 445,444,108	\$ 1,294,242	\$ 2,403,740	\$ 449,142,090

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 19 - SUBSEQUENT EVENTS

On September 2, 2014, the Board of Trustees of the Endowment Fund entered into a modified agreement for the sale of Hofmann Forest. The agreement provides for the NC State Endowment Fund to receive \$140 million from the sale, with the proceeds to be held for the benefit of the College of Natural Resources. The University believes the sale is likely to occur in fiscal year 2015.

### NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS

The University's discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units' audited financial statement follow:

#### **North Carolina State University Foundation, Inc.**

##### **Long-Term Investments**

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2014, consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 197,717	\$ 197,717
NC State Investment Fund, Inc. (NCSIF)	152,220,636	189,494,314
SRI Fund	10,139,738	10,269,104
Wells Fargo - Life Income Funds	<u>6,630,291</u>	<u>7,265,196</u>
	<u>\$ 169,188,382</u>	<u>\$ 207,226,331</u>

Investments held by the NCSIF at June 30, 2014, were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio ("LPP"), a bundle of exchange-traded funds, and the STIF. As of June 30, 2014, approximately 87.9% of these limited partnerships were with the UNC Management Company, 5.1% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 6.8% was invested in the LPP, and 0.2% was invested in the STIF. NCSIF's net assets were valued at approximately \$597,884,000 at June 30, 2014. The Foundation's investment in the NCSIF represents approximately 31.7% of the member equity of NCSIF at June 30, 2014.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The SRI Fund assets are invested in a socially responsible manner through a diversified portfolio of managers that consider environmental, social and governance issues. As of June 30, 2014, approximately 44.4% of total assets were invested with RBC SRI Wealth Management Group (RBC), 44.3% with Generation IM Global Equity A Fund, 11.1% with Calvert Bond Portfolio Fund and 0.2% in the STIF.

The Foundation's investments held by Wells Fargo - Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

### **Life Income Funds**

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2014, have asset balances of \$7,265,196.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$3,954,470 at June 30, 2014. Payments from these funds were \$480,111 during the year ended June 30, 2014. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 5% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Foundation's CGA pool. As of June 30, 2014, the CGA reserve balance was \$23,841.

In addition to the above life income funds, the Foundation was named the recipient of an externally managed trust in 2011 which represents irrevocable life income funds with a market value totaling \$21,697,842 and life income funds payable of \$12,967,419 as of June 30, 2014. The Foundation is not serving as trustee for these funds. These life income funds have been reflected in the financial statements at their fair value. Estimated future distributions to the beneficiaries have been reflected in the financial statements computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### Pledges Receivable

Pledges receivable are stated at their present value, estimated by discounting the future cash flows using Federal Reserve rates of return, and are as follows:

Receivable in Less Than One Year	\$ 7,681,378
Receivable in One to Five Years	61,835,440
Receivable in Greater Than Five Years	<u>2,011,450</u>
Total Gross Pledges Receivable	71,528,268
Less Allowance for Uncollectible Pledges	237,000
Less Unamortized Discount	<u>2,478,793</u>
Net Pledges Receivable	<u>\$ 68,812,475</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excluding three large pledges for which signed memorandums of understanding exist and therefore the Foundation is reasonably assured of collecting. Such pledges represented approximately \$66.8 million of total pledges receivable at year ended June 30, 2014. Active past due pledges receivable are reviewed semi-annually by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

### NC State Student Aid Association, Inc.

#### Pledges Receivable

The Association carries its pledges receivable at cost less a discount for pledges receivable due in more than a year and less an allowance for doubtful accounts. On a periodic basis, the Association evaluates its receivables and establishes an allowance for doubtful accounts, based on history of past write-offs and current credit conditions.

Pledges receivable at June 30, 2014, are as follows:

Pledges Receivable	\$ 30,591,581
Less Allowance for Uncollectible Pledges	1,529,579
Less Discount on Pledges	<u>6,029,379</u>
	23,032,623
Less Current Portion	<u>4,937,192</u>
Pledges Due after One Year	<u>\$ 18,095,431</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 6%.

Receivable in Less Than One Year	\$	5,197,045
Receivable in One to Five Years		15,301,162
Receivable in More Than Five Years		10,093,374
		30,591,581
Less Allowance for Uncollectible Pledges		1,529,579
Less Discount on Pledges		6,029,379
		\$ 23,032,623

Under the Vaughn Towers Management and Use Agreement dated March 2013, Goal Line Drive and Wolfpack Pride campaign pledge revenues totaling \$7,206,915 were committed to be paid to NCSU to retire certain facility debt and other obligations related to NCSU's athletic facilities. Payments in the amount of \$1,441,383 are due annually over five years through May 2017. The remaining commitment at June 30, 2014, was \$4,324,149.

### Investments

The Association held the following investments at June 30, 2014:

	Historical Cost	Market Value
Marketable Equity Securities	\$ 11,119,113	15,555,350
Other Marketable Debt Securities	6,929,839	6,966,933
U.S. Government Obligations	5,087,924	5,097,322
Alternative Investments	4,182,203	5,328,010
Mutual Funds	1,841,745	2,016,875
	\$ 29,160,824	34,964,490

Investment income (loss) consists of the following:

Interest	\$	310,048
Dividends		446,637
Realized Gain on Sale of Investments		940,990
Unrealized Gain (Loss) on Investments		3,006,638
Investment Expenses		(291,331)
		\$ 4,412,982

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### The North Carolina Agricultural Foundation, Inc.

#### Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2014, consisted of:

	Cost	Fair Value
STIF	\$ 191,181	\$ 191,181
NC State Investment Fund, Inc. (NCSIF)	43,886,329	58,318,763
Wells Fargo - Life Income Funds	4,771,708	5,243,651
	<u>\$ 48,849,218</u>	<u>\$ 63,753,595</u>

Investments held by the NCSIF at June 30, 2014, were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio (“LPP”), a bundle of exchange-traded funds, and the STIF. As of June 30, 2014, approximately 87.9% of these limited partnerships were with the UNC Management Company (UNCMC), 5.1% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 6.8% was invested in the LPP, and 0.2% was invested in the STIF. NCSIF’s net assets were valued at approximately \$597,884,000 at June 30, 2014. The Foundation’s investment in NCSIF represents approximately 9.75% of the member’s equity of NCSIF at June 30, 2014.

The Foundation’s investments at Wells Fargo – Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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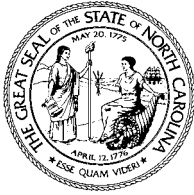
### Pledges Receivable

Pledges receivable are stated at their present value, estimated by discounting the future cash flows using Federal Reserve rates of return, and are as follows:

Receivable in Less Than One Year	\$	4,836,917
Receivable in One to Five Years		5,974,240
Receivable in Greater Than Five Years		<u>711,455</u>
Total Gross Pledges Receivable		11,522,612
Less Allowance for Uncollectible Pledges		277,000
Less Unamortized Discount		<u>221,077</u>
Net Pledges Receivable	\$	<u><u>11,024,535</u></u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excluding the Prestage Family Department of Poultry Science Endowment for Excellence pledge which the Foundation is reasonably assured of collecting. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Two donors represent approximately \$7.75 million of total undiscounted pledges receivable at June 30, 2014.

**Office of the State Auditor**

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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 State University  
Raleigh, 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 State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 7, 2014. Our report includes a reference to other auditors who audited the financial statements of the NC State Investment Fund, Inc., and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the North Carolina State University Foundation, Inc. and the NC State Student Aid Association, Inc., discretely presented component units, 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 these 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 opinions 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.

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

November 7, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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

Telephone: 919-807-7500

Facsimile: 919-807-7647

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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

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For additional information contact:

Bill Holmes

Director of External Affairs