

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

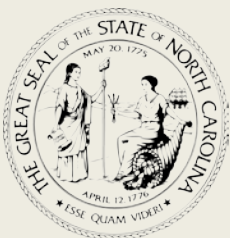


## NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS

DURHAM, NORTH CAROLINA

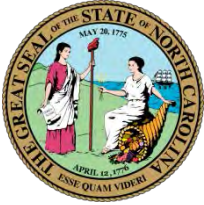
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2015

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA  
SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



**NCOSA**  
The Taxpayers' Watchdog

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



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

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## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, North Carolina School of Science and Mathematics

We have completed a financial statement audit of North Carolina School of Science and Mathematics for the year ended June 30, 2015, 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



Beth A. Wood, CPA  
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**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 School of Science and Mathematics  
Durham, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina School of Science and Mathematics (School), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

### Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina School of Science and Mathematics, and its discretely presented component unit, as of June 30, 2015, and the respective 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.

### Emphasis of Matter

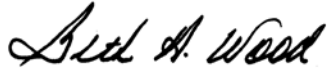
As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, North Carolina School of Science and Mathematics adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

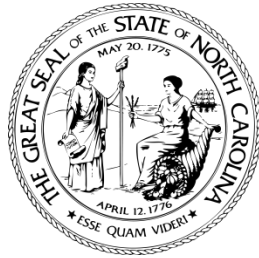
In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 23, 2016



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**Introduction**

North Carolina School of Science and Mathematics (School) provides this overview and Management's Discussion and Analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2015. This discussion describes important trends and events that have impacted the fiscal health of the School and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the School's management along with the financial statements and the notes to the financial statements thereto. The report should be read and considered in its entirety.

**Using the Annual Report**

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

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

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

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

**Reporting Entity**

The financial statements report information about the School as a whole using accounting methods similar to those used in the private-sector. The financial reporting entity for the financial statements is comprised of the School and two component units. The NCSSM Student and Constituent Support Services, Inc., a blended component unit, is a legally

separate not-for-profit corporation and is reported as if it was part of the School. The North Carolina School of Science and Mathematics Foundation and Subsidiary is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the School. The component units are subject to independent outside audits due to organizational requirements or source of funding.

### **Financial Highlights**

The School's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2015. However, the combined net position for the School decreased \$1.21 million, which is a decrease of 2.99% when compared to the restated prior year net position as a result of accounting changes required by Accounting Statement No. 68 of the Governmental Accounting Standard Board, "Accounting and Financial Reporting for Pensions" (GASB 68).

### **Statement of Net Position**

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

Net position is divided into categories to show the availability to meet the School's obligations. The first category, net investment in capital assets, provides the School's equity in property, plant, and equipment. The next category is restricted net position which is broken out between capital projects and other. The restricted capital projects net position includes resources which the School is obligated to spend on capital projects. The restricted other net position includes resources which the School is obligated to spend on student deposit refunds or related repairs. The final category is unrestricted net position. Unrestricted net position is available to the School for any lawful purpose. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the School's unrestricted net position has been designated for various programs and initiatives.

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

	2015	2014 (As Restated)	Increase/ (Decrease)	Percent Change
<b>Assets:</b>				
Current Assets	\$ 742,539.05	\$ 513,606.84	\$ 228,932.21	44.57%
Noncurrent Assets:				
Restricted Cash	1,313,606.89	1,580,388.77	(266,781.88)	(16.88%)
Capital Assets	43,082,625.24	43,374,071.49	(291,446.25)	(0.67%)
Total Assets	<u>45,138,771.18</u>	<u>45,468,067.10</u>	(329,295.92)	(0.72%)
<b>Deferred Outflows of Resources:</b>				
Deferred Outflows Related to Pensions	1,159,526.00	869,292.00	290,234.00	33.39%
<b>Liabilities:</b>				
Current Liabilities	904,324.56	415,889.46	488,435.10	117.44%
Noncurrent Liabilities	3,344,793.92	5,494,378.00	(2,149,584.08)	(39.12%)
Total Liabilities	<u>4,249,118.48</u>	<u>5,910,267.46</u>	(1,661,148.98)	(28.11%)
<b>Deferred Inflows of Resources:</b>				
Deferred Inflows Related to Pensions	<u>2,830,318.00</u>	<u>2,830,318.00</u>	2,830,318.00	100.00%
<b>Net Position:</b>				
Net Investment in Capital Assets	42,320,345.09	43,374,071.49	(1,053,726.40)	(2.43%)
Restricted:				
Expendable				
Capital Projects	1,296,817.94	1,580,388.77	(283,570.83)	(17.94%)
Other	110,067.35	110,067.35	110,067.35	100.00%
Unrestricted	<u>(4,508,369.68)</u>	<u>(4,527,368.62)</u>	18,998.94	0.42%
Total Net Position	<u>\$ 39,218,860.70</u>	<u>\$ 40,427,091.64</u>	\$ (1,208,230.94)	(2.99%)

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

As of June 30, 2015, the total School's net position was \$39.22 million. The School's total capital assets of \$43.08 million represent 95.44% of total assets. Total assets decreased \$329,296, or 0.72% mainly due to depreciation allocated to the cost of capital assets. The decrease in noncurrent restricted cash was due to a decrease in unexpended appropriated capital improvements funds for various construction projects which were awarded late in the prior fiscal year that were used during the current year. The increase in current assets was due to increase in restricted cash to cover current liabilities for restricted activities and an increase in component unit's unrestricted cash. The decrease in noncurrent capital assets was due to depreciation for the current year.

The School's liabilities totaled \$4.25 million at June 30, 2015. Current liabilities, which include accounts payable, funds held for others, unearned revenue, interest payable, and the current portion of notes payable and compensated absences increased \$488,435, or 117.44%, primarily due to an increase in salaries and benefits for programs in June that were paid after year end, increased use of purchase cards during June, and receipt of utility invoices after final check runs allowed by OSC. During the current year the School entered into an installment financing contract for a project focused on various energy conservation measures and controls improvements. The decrease in noncurrent liabilities is mainly due to the prior year restatement required by GASB 68. Details of both current and noncurrent liabilities are shown on the Statement of Net Position and in Notes 5 and 6.

Unrestricted net position increased by \$18,999 to negative \$4.51 million. This was due primarily to an increase for unpaid leave benefits and restatement of prior year's unrestricted

net position as required by GASB 68. Restricted net position decreased \$173,503, or 10.98% as a result of appropriations received in the prior year for construction projects being spent during the current year.

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

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

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

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

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

	2015	2014*	Increase/ (Decrease)	Percent Change
<b>Operating Revenues:</b>				
Student Tuition and Fees	250,430.20	55,662.39	194,767.81	349.91%
Sales and Services, Net	669,565.28	566,955.25	102,610.03	18.10%
State and Local Grants and Contracts		653,826.07	(653,826.07)	(100.00%)
Other	43,547.34	145,990.14	(102,442.80)	(70.17%)
<b>Total Operating Revenues</b>	<u>963,542.82</u>	<u>1,422,433.85</u>	(458,891.03)	(32.26%)
<b>Operating Expenses:</b>				
Salaries and Benefits	16,816,846.95	16,684,370.11	132,476.84	0.79%
Supplies and Materials	893,888.31	1,013,737.43	(119,849.12)	(11.82%)
Services	2,817,490.23	2,645,616.34	171,873.89	6.50%
Utilities	1,081,241.58	1,016,668.41	64,573.17	6.35%
Depreciation	1,199,316.68	1,182,355.75	16,960.93	1.43%
<b>Total Operating Expenses</b>	<u>22,808,783.75</u>	<u>22,542,748.04</u>	266,035.71	1.18%
<b>Operating Loss</b>	(21,845,240.93)	(21,120,314.19)	724,926.74	3.43%
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	19,794,698.87	19,098,535.19	696,163.68	3.65%
Noncapital Grants, Net	73,480.00	6,024.93	67,455.07	1119.60%
Noncapital Gifts	695,251.87	500,825.74	194,426.13	38.82%
Interest and Fees on Debt	(12,087.14)		12,087.14	100.00%
Other Nonoperating Revenues (Expenses)	160.88	(3,634.56)	3,795.44	104.43%
<b>Nonoperating Revenues</b>	<u>20,551,504.48</u>	<u>19,601,751.30</u>	949,753.18	4.85%
<b>Loss Before Other Revenues</b>	(1,293,736.45)	(1,518,562.89)	(224,826.44)	(14.81%)
Capital Appropriations		1,788,627.00	(1,788,627.00)	(100.00%)
Capital Gifts	85,505.51		85,505.51	100.00%
<b>Increase(Decrease) in Net Position</b>	(1,208,230.94)	270,064.11	(1,478,295.05)	(547.39%)
Net Position - July 1, Restatement	40,427,091.64	43,136,761.53	(2,979,734.00)	
Net Position - June 30	<u>\$ 39,218,860.70</u>	<u>\$ 40,427,091.64</u>		
<b>Total Revenues</b>	21,612,639.95	22,816,446.71	(1,203,806.76)	(5.28%)
<b>Total Expenses</b>	22,820,870.89	22,546,382.60	274,488.29	1.22%

\* Note: The year ended June 30, 2014 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.

The Statement of Revenues, Expenses, and Changes in Net Position shows a decrease in net position of \$1.21 million for the fiscal year. The total operating loss for fiscal year 2015 was \$21.85 million. Since the State of North Carolina appropriations are not included within operating revenue per GASB, the School shows a significant operating loss.

Operating revenues include student tuition and fees, sales and services, state and local grants and contracts, and other operating revenues. The \$458,891 decrease in operating revenues is primarily the result of a decrease of \$653,826 in state and local grants and

contracts from a Department of Public Instruction grant in the prior year and an increase in tuition and fees of \$194,768 due to an increased enrollment in summer programs offered to students of which the School gained approval from North Carolina legislation in the prior year. Focus on these programs is expected to continue going forward.

Operating expenses, including depreciation of \$1.20 million, totaled \$22.81 million. Of this total, \$16.82 million was used for salaries and benefits and \$2.82 million was for services. Services consisting of contractual agreements, repairs and maintenance, data processing services, travel, and communication expenses increased by \$171,874, or 6.50% due to related activity to support increased program services for research and mentorship and summer student programs. Supplies and materials decreased by \$119,849 or 11.82% due to cost saving measures and efficiencies. Overall operating expenses increased by \$266,036 or 1.18%.

State appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of the State Controller. For the fiscal year ending June 30, 2015, appropriations from the State for the School were \$19.79 million for operations. Nonoperating grants and gifts and capital gifts increased by \$347,387 mainly due to increased support by the NCSSM Foundation and increased operating grants.

Capital appropriations decreased \$1.79 million as funds approved for repairs and renovations and construction projects were not received during the current year.

One of the School's weaknesses is the lack of diverse streams of revenues. Approximately 91.64% of the School's revenues come from state appropriations. The remaining 8.36% includes voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs. The School will continue to seek funding aggressively from all possible sources consistent with its mission and prudently manage the financial resources realized from these efforts to fund its operating activities.

### **Capital Assets**

Primary capital projects for fiscal year 2015 included the Discovery Center Planning, completion of the FAB Lab project, and energy savings improvements on campus. The Discovery Center reported on the financial statements as construction in progress is still a major state construction request for the School and is awaiting approval by the State for additional funding. Total capital assets, net of accumulated depreciation, at June 30, 2015 were \$43.08 million. For more detailed information about capital asset holdings, see Note 4 of the Notes to the Financial Statements.

### **Debt Activity**

The School entered into a financing agreement along with the UNC System for improvements to provide guaranteed energy savings (ESCO). The agreement dated September 1, 2014 is for \$746,248.00. Additional information regarding the ESCO Financing Agreement can be found in Note 6A-C.

### **Net Position Restatement**

The School implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the*

*Measurement Date – An Amendment of GASB Statement No. 68.* (GASB 68) to improve accounting and financial reporting by state and local governments for pensions. Under this Statement, the School was required to make year-end entries to record their proportionate share of the Teachers' and State Employees' Retirement System (TSERS) net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources. The net pension liability for TSERS was measured as of June 30, 2014 as required by GASB 68. Additionally, net position was restated to record the beginning balance of the net pension liability and the deferred outflow of resources for employer contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. In accordance with the requirements of GASB 68, deferred outflows of resources now include deferred outflows for pensions, deferred inflows of resources now include deferred inflows for pensions, and noncurrent liabilities include net pension liability. The Statement also requires the presentation of required supplementary information (RSI) to include pension related information for the past ten years. The RSI is presented in the report following the Notes to the Financial Statements.

### **Factors Impacting Future Periods**

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

A crucial element to the School's future will continue to be its relationship with the State of North Carolina. It should be noted that the School's state appropriations are projected to be consistent in 2015-2016 with the current year. While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina, the School's financial condition is strong enough to withstand the current economic uncertainties. The School developed a strategic plan in 2012-2013 that is enabling the School to develop and implement a blueprint for the future. The year-long term project included representatives from all constituencies of the School and is continually reviewed and updated in response to needs of all constituencies served by the School.



# FINANCIAL STATEMENTS



**North Carolina School of Science and Mathematics**  
**Statement of Net Position**  
**June 30, 2015**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	604,117.76
Restricted Cash and Cash Equivalents		93,278.40
Receivables, Net (Note 3)		5,087.22
Inventories		39,882.99
Other Assets		172.68
		<hr/>
Total Current Assets		742,539.05

Noncurrent Assets:

Restricted Cash and Cash Equivalents		683,832.42
Restricted Investments		629,774.47
Capital Assets - Nondepreciable (Note 4)		5,719,215.44
Capital Assets - Depreciable, Net (Note 4)		37,363,409.80
		<hr/>
Total Noncurrent Assets		44,396,232.13
		<hr/>
Total Assets		45,138,771.18

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions		<hr/>
		1,159,526.00

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)		608,596.61
Funds Held for Others		37,192.56
Unearned Revenue		4,591.07
Interest Payable		3,436.47
Long-Term Liabilities - Current Portion (Note 6)		250,507.85
		<hr/>
Total Current Liabilities		904,324.56

Noncurrent Liabilities:

Funds Held for Others		55,162.62
Long-Term Liabilities, Net (Note 6)		3,289,631.30
		<hr/>
Total Noncurrent Liabilities		3,344,793.92
		<hr/>
Total Liabilities		4,249,118.48

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions		<hr/>
		2,830,318.00

**North Carolina School of Science and Mathematics**  
**Statement of Net Position**  
**June 30, 2015**

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

**NET POSITION**

Net Investment in Capital Assets	42,320,345.09
Restricted for:	
Expendable:	
Capital Projects	1,296,817.94
Other	110,067.35
Unrestricted	<u>(4,508,369.68)</u>
Total Net Position	<u>\$ 39,218,860.70</u>

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

**North Carolina School of Science and Mathematics  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2015**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees	\$ 250,430.20
Sales and Services, Net (Note 8)	669,565.28
Other Operating Revenues	43,547.34
	<hr/>
Total Operating Revenues	963,542.82
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	16,816,846.95
Supplies and Materials	893,888.31
Services	2,817,490.23
Utilities	1,081,241.58
Depreciation	1,199,316.68
	<hr/>
Total Operating Expenses	22,808,783.75
	<hr/>
Operating Loss	(21,845,240.93)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	19,794,698.87
Noncapital Grants	73,480.00
Noncapital Gifts	695,251.87
Interest and Fees on Debt	(12,087.14)
Other Nonoperating Revenues	160.88
	<hr/>
Net Nonoperating Revenues	20,551,504.48
	<hr/>
Loss Before Other Revenues	(1,293,736.45)
	<hr/>
Capital Gifts	85,505.51
	<hr/>
Decrease in Net Position	(1,208,230.94)
	<hr/>

**NET POSITION**

Net Position - July 1, 2014, as Restated (Note 15)	40,427,091.64
	<hr/>
Net Position - June 30, 2015	\$ 39,218,860.70
	<hr/> <hr/>

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

**North Carolina School of Science and Mathematics**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 929,880.33
Payments to Employees and Fringe Benefits	(17,002,006.95)
Payments to Vendors and Suppliers	(4,508,798.22)
Other Receipts	61,591.75
	<hr/>
Net Cash Used by Operating Activities	(20,519,333.09)
	<hr/>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	19,794,698.87
Noncapital Grants	72,589.08
Noncapital Gifts	695,251.38
Other Receipts	160.88
	<hr/>
Cash Provided by Noncapital Financing Activities	20,562,700.21
	<hr/>

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

Proceeds from Capital Debt	746,248.00
Acquisition and Construction of Capital Assets	(801,584.43)
Principal Paid on Capital Debt and Leases	(4,747.85)
Interest and Fees Paid on Capital Debt and Leases	(8,650.67)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(68,734.95)
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Investments and Related Fees	(629,774.47)
	<hr/>
Cash Used by Investing Activities	(629,774.47)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(655,142.30)
Cash and Cash Equivalents - July 1, 2014	2,036,370.88
	<hr/>
Cash and Cash Equivalents - June 30, 2015	\$ 1,381,228.58
	<hr/> <hr/>

**North Carolina School of Science and Mathematics  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2015**

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

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

Operating Loss	\$ (21,845,240.93)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,199,316.68
Pension Expense	397,819.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	9,884.85
Inventories	2,769.67
Other Assets	(172.68)
Accounts Payable and Accrued Liabilities	405,926.23
Funds Held for Others	18,217.09
Deferred Outflows for Contributions Subsequent to the Measurement Date	(923,115.00)
Compensated Absences	215,262.00
	<u>215,262.00</u>
Net Cash Used by Operating Activities	<u><u>\$ (20,519,333.09)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 604,117.76
Restricted Cash and Cash Equivalents	93,278.40
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>683,832.42</u>
Total Cash and Cash Equivalents - June 30, 2015	<u><u>\$ 1,381,228.58</u></u>

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

Assets Acquired through the Assumption of a Liability	\$ 20,780.00
Assets Acquired through a Gift	85,505.51

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

**North Carolina School of Science and Mathematics  
Foundation and Subsidiary  
Statement of Financial Position  
June 30, 2015**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$	2,258,332
Investments		9,929,218
Accounts Receivable		9,187
Pledges Receivable		88,801
Prepaid Assets		15,276
In-Kind Gifts		41,405
Land		60,540
		<hr/>
Total Assets		12,402,759

**LIABILITIES**

Accounts Payable and Accrued Expenses		<hr/>
		194,731

**NET ASSETS**

Unrestricted		3,702,785
Temporarily Restricted		3,623,996
Permanently Restricted		4,881,247
		<hr/>
Total Net Assets	\$	12,208,028

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

**North Carolina School of Science and Mathematics  
 Foundation and Subsidiary  
 Statement of Activities  
 For the Fiscal Year Ended June 30, 2015**

**Exhibit B-2  
 Page 1 of 2**

**CHANGES IN UNRESTRICTED NET ASSETS**

Operating Revenues, Gains, and Other Support:		
Grants and Contributions	\$	920,211
Investment Return Designated for Current Operations		105,412
Other Investment Income		10,743
Other Income		4,340
Net Assets Released from Donor Restrictions		397,771
		<hr/>
Total Operating Revenues, Gains, and Support		1,438,477
		<hr/>
Operating Expenses		
Programs		947,157
Fund Raising		266,765
General and Administrative		338,259
		<hr/>
Total Operating Expenses		1,552,181
		<hr/>
Change in Net Assets from Operations		(113,704)
Loss on Sale of Real Estate		(104,773)
Investment Return in Excess of Amounts Designated for Current Operations		168,926
		<hr/>
Decrease in Unrestricted Net Assets		(49,551)

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Operating Revenues, Gains, and Other Support:		
Grants and Contributions		355,600
Investment Return Designated for Current Operations		212,699
Net Assets Released from Donor Restrictions		(397,771)
		<hr/>
Total Operating Revenues, Gains, and Support		170,528
		<hr/>
Operating Expenses		
General and Administrative		4,800
		<hr/>
Change in Net Assets from Operations		165,728
Investment Return in Excess of Amounts Designated for Current Operations		305,580
Net Asset Transfer		(55,742)
		<hr/>
Increase in Temporarily Restricted Net Assets		415,566

**North Carolina School of Science and Mathematics  
 Foundation and Subsidiary  
 Statement of Activities  
 For the Fiscal Year Ended June 30, 2015**

**Exhibit B-2  
 Page 2 of 2**

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Operating Revenues, Gains, and Other Support:	
Grants and Contributions	1,038,452
Operating Expenses	
General and Administrative	1,250
Change in Net Assets from Operations	1,037,202
Net Asset Transfer	55,742
Increase in Permanently Restricted Net Assets	1,092,944
Increase in Net Assets	1,458,959
Net Assets at Beginning of Year	10,749,069
Net Assets at End of Year	\$ 12,208,028

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





# NOTES TO THE FINANCIAL STATEMENTS

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

The accompanying financial statements present all funds belonging to the School and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor and the Board of Trustees have delegated responsibilities for financial accountability of the School's funds. The School's component units are either blended or discretely presented in the School's financial statements. See below for further discussion of the School's component units.

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

The SCSSI is governed by a seven-member board of directors consisting of two ex officio directors. All directors are employees of the School. The ex officio directors consist of the Chancellor and the Vice Chancellor for Student Life. The SCSSI's purpose is to receive, administer, and advance funds for the support of student services and program operations of the School. Because the members of the Board of Directors of the SCSSI are employees of the School and the SCSSI's sole purpose is to benefit North Carolina School of Science and Mathematics, its financial statements have been blended with those of the School.

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

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

**Discretely Presented Component Unit** – The North Carolina School of Science and Mathematics Foundation and Subsidiary (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the School. SSM Holdings, LLC is the wholly owned subsidiary of the Foundation.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the School in support of its programs. The Foundation operates exclusively for charitable and educational purposes including, but not limited to, receiving, administering, and obtaining funds for the support of the academic and education programs of North Carolina School of Science and Mathematics. The Foundation board consists of 21 members. Although the School does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the School by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the School, the Foundation is considered a component unit of the School and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the School's financial reporting entity for these differences.

During the year ended June 30, 2015, the Foundation distributed \$614,869 to the School and paid an additional \$765,645 on behalf of the School for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Katie Wagstaff, President, North Carolina School of Science and Mathematics Foundation and Subsidiary, Post Office Box 2418, Durham, NC 27715-2418, or by calling (919) 416-2866.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of amounts due from former employees. Receivables also include amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost 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 School capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery & Equipment	2-25 years
General Infrastructure	10-75 years

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

- 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, and unspent debt proceeds.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the School's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the School's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 10 for further information regarding the School's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

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

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

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

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

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

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

**M. Revenue and Expense Recognition** - The School classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the School's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services, and (3) certain state and local grants and contracts that are essentially contracts for services. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- N. Internal Sales Activities** - Certain institutional sales and services units provide goods and services to School departments, as well as to its customers. These institutional sales and services units include activities such as central stores, copy centers, and postal services. In addition, the School has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to School departments from sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the 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 School is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the School to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the School may voluntarily deposit institutional trust funds and special funds with the State Treasurer. Special funds consist of moneys for athletics and agency funds held directly by the School.

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,280,809.59 which represents the School's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2015 was \$600.00. The carrying amount of the School's deposits not with the State Treasurer was \$99,818.99 and the bank balance was \$106,367.68. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk. As of



June 30, 2015, the School's bank balance was fully insured by federal depository insurance and was not exposed to custodial credit risk.

**B. Investments**

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

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; 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.

Investments are subject to the following risks.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the School's investments.

Investment Type	Fair Value	Investment Maturities (In Years)
		Less Than 1
Money Market Mutual Funds	\$ 629,774.47	\$ 629,774.47

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



At June 30, 2015, the School's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
Money Market Mutual Funds	\$ 629,774.47	\$ 629,774.47

Rating Agency: Moody's

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

Investment Type	Fair Value
UNC Investment Fund	\$ 9,929,218.00

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Receivables:</b>			
Intergovernmental	\$ 3,694.78	\$ 3,694.78	\$ 0.00
Other	44,566.19	39,478.97	5,087.22
<b>Total Receivables</b>	<b>\$ 48,260.97</b>	<b>\$ 43,173.75</b>	<b>\$ 5,087.22</b>

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	\$ 1,337,173.66	\$ 0.00	\$ 0.00	\$ 1,337,173.66
Art	10,092.76			10,092.76
Construction in Progress	4,295,367.20	801,584.92	725,003.10	4,371,949.02
<b>Total Capital Assets, Nondepreciable</b>	<b>5,642,633.62</b>	<b>801,584.92</b>	<b>725,003.10</b>	<b>5,719,215.44</b>
Capital Assets, Depreciable:				
Buildings	51,356,149.10	725,003.10		52,081,152.20
Machinery and Equipment	1,682,541.60	106,285.51		1,788,827.11
General Infrastructure	1,940,055.66			1,940,055.66
<b>Total Capital Assets, Depreciable</b>	<b>54,978,746.36</b>	<b>831,288.61</b>		<b>55,810,034.97</b>
Less Accumulated Depreciation for:				
Buildings	15,421,850.24	1,035,581.35		16,457,431.59
Machinery and Equipment	1,168,621.81	82,812.44		1,251,434.25
General Infrastructure	656,836.44	80,922.89		737,759.33
<b>Total Accumulated Depreciation</b>	<b>17,247,308.49</b>	<b>1,199,316.68</b>		<b>18,446,625.17</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>37,731,437.87</b>	<b>(368,028.07)</b>		<b>37,363,409.80</b>
<b>Capital Assets, Net</b>	<b>\$ 43,374,071.49</b>	<b>\$ 433,556.85</b>	<b>\$ 725,003.10</b>	<b>\$ 43,082,625.24</b>

During the year ended June 30, 2015, the School incurred \$10,882.16 in interest costs related to the acquisition and construction of capital assets. Of this total, \$1,458.72 was charged in interest expense, and \$9,423.44 was capitalized.

The School has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$726,350.50 and is subject to security provisions in the agreement to ensure timely debt service payments. The value of the energy savings improvement assets includes \$125,774.35 which has been completed as of June 30, 2015 and \$600,576.15 which is remaining to be completed by the ESCO provider. Additional information regarding the UNC System Energy Savings Installment Financing Agreement can be found in Note 6.

The carrying amount of temporarily impaired capital assets idle at year end is \$4,246,174.70 for construction in progress for the Discovery Center, an approved project that has not received funding from the State. It is the Board's intention to complete the project once future funding is received.

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

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 396,454.87
Accrued Payroll	212,141.74
	<hr/>
Total Accounts Payable and Accrued Liabilities	<u>\$ 608,596.61</u>

**NOTE 6 - LONG-TERM LIABILITIES**

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	\$ 3,849,026.00	\$ 0.00	\$ 3,065,380.00	\$ 783,646.00	\$ 0.00
Notes Payable		746,248.00		746,248.00	23,517.59
Capital Leases Payable		20,780.00	4,747.85	16,032.15	5,034.26
Compensated Absences	1,778,951.00	1,444,099.00	1,228,837.00	1,994,213.00	221,956.00
				<hr/>	
Total Long-Term Liabilities	<u>\$ 5,627,977.00</u>	<u>\$ 2,211,127.00</u>	<u>\$ 4,298,964.85</u>	<u>\$ 3,540,139.15</u>	<u>\$ 250,507.85</u>

Additional information regarding capital lease obligations is included in Note 7.  
Additional information regarding the net pension liability is included in Note 10.

**B. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2015, are as follows:

	Annual Requirements	
	Notes Payable	
Fiscal Year	Principal	Interest
2016	\$ 23,517.59	\$ 3,436.47
2017	95,515.83	12,657.91
2018	98,937.41	10,876.40
2019	103,069.76	9,025.62
2020	107,324.48	7,097.87
2021-2025	317,882.93	8,923.07
		<hr/>
Total Requirements	<u>\$ 746,248.00</u>	<u>\$ 52,017.34</u>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
UNC-ESCO Project	Banc of America Public Capital Corp	1.84%	02/14/2023	<u>\$ 746,248.00</u>	<u>\$ 0.00</u>	<u>\$ 746,248.00</u>

**NOTE 7 - LEASE OBLIGATIONS**

**A. Capital Lease Obligations** - Capital lease obligations relating to computer 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, 2015:

Fiscal Year	Amount
2016	\$ 6,001.38
2017	6,001.38
2018	<u>6,001.38</u>
Total Minimum Lease Payments	18,004.14
Amount Representing Interest (6.03% Rate of Interest)	<u>1,971.99</u>
Present Value of Future Lease Payments	<u>\$ 16,032.15</u>

Machinery and equipment acquired under capital lease amounted to \$20,780.00 at June 30, 2015.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$3,030.62 at June 30, 2015.

**B. Operating Lease Obligations** - The School entered into operating leases for equipment and housing. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	\$ 77,075.27
2017	65,304.72
2018	<u>7,613.99</u>
Total Minimum Lease Payments	<u>\$ 149,993.98</u>

Rental expense for all operating leases during the year was \$82,674.98.

**NOTE 8 - REVENUES**

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

	Gross Revenues	Internal Sales Eliminations	Net Revenues
Operating Revenues:			
Sales and Services	\$ 744,853.21	\$ 75,287.93	\$ 669,565.28

**NOTE 9 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	\$ 8,970,795.16	\$ 249,508.58	\$ 151,870.76	\$ 0.00	\$ 0.00	\$ 9,372,174.50
Academic Support	317,349.05	40,541.77	45,193.64			403,084.46
Student Services	3,237,203.76	107,258.95	2,054,566.04			5,399,028.75
Institutional Support	2,824,170.57	163,836.17	320,128.16			3,308,134.90
Operations and Maintenance of Plant	1,069,509.41	332,742.84	245,731.63	1,081,241.58		2,729,225.46
Depreciation					1,199,316.68	1,199,316.68
Pension Expense	397,819.00					397,819.00
Total Operating Expenses	<u>\$ 16,816,846.95</u>	<u>\$ 893,888.31</u>	<u>\$ 2,817,490.23</u>	<u>\$ 1,081,241.58</u>	<u>\$ 1,199,316.68</u>	<u>\$ 22,808,783.75</u>

**NOTE 10 - PENSION PLANS**

**A. Defined Benefit Plan**

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General

employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The School's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The School's contributions to the pension plan were \$923,115.00, and employee contributions were \$605,321.31 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit

Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2015, the School reported a liability of \$783,646.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The School's proportion of the net pension liability was based on the present value of future salaries for the School relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the School's proportion was 0.06684%, which was an increase of 0.00344 from its proportion measured as of June 30, 2013.

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market

expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 5,625,556.00	\$ 783,646.00	\$ (3,304,641.00)



*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2015, the School recognized pension expense of \$397,819.00. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 0.00	\$ 182,664.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		2,647,654.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	236,411.00	
Contributions Subsequent to the Measurement Date	<u>923,115.00</u>	
Total	<u>\$ 1,159,526.00</u>	<u>\$ 2,830,318.00</u>

\$923,115.00 of the amount reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	<u>Amount</u>
2016	\$ (647,732.00)
2017	(647,732.00)
2018	(647,732.00)
2019	<u>(650,711.00)</u>
Total	<u>\$ (2,593,907.00)</u>

**B. Defined Contribution Plan -** The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the

participant's death. Administrators and eligible faculty of the School may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2015, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The School assumes no liability other than its contribution.

For the current fiscal year, the School had a total payroll of \$13,041,910.98, of which \$1,948,307.80 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$133,264.25 and \$116,898.47, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

#### **NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS**

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets

are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the School contributed 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The School made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$660,831.10, \$627,571.26, and \$578,996.06, respectively. The School 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 School participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS and ORP. 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, 2015, the School made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The School made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$49,351.68, \$51,135.44, and \$48,067.60, respectively. The School assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

**NOTE 12 - RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of

methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

**A. Employee Benefit Plans**

**1. State Health Plan**

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

**2. Death Benefit Plan of North Carolina**

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.

**B. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property Losses**

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

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

**2. Public Officers' and Employees' Liability Insurance**

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

School pays the premium, based on a composite rate, directly to the private insurer.

**3. Employee Dishonesty and Computer Fraud**

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

**4. Statewide Workers' Compensation Program**

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

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

**NOTE 13 - COMMITMENTS**

The School has established an encumbrance system to track its outstanding commitments on purchases. Outstanding commitments on purchases were \$964,229.01 at June 30, 2015.

**NOTE 14 - BLENDED COMPONENT UNIT**

Condensed combining information for the School's blended component unit for the year ended June 30, 2015, is presented as follows:

*Condensed Statement of Net Position  
June 30, 2015*

	North Carolina School of Science and Mathematics	NCSSM Student and Constituent Support Services, Inc.	Total
<b>ASSETS</b>			
Current Assets	\$ 613,840.76	\$ 128,698.29	\$ 742,539.05
Capital Assets	43,082,625.24		43,082,625.24
Other Noncurrent Assets	1,313,606.89		1,313,606.89
Total Assets	<u>45,010,072.89</u>	<u>128,698.29</u>	<u>45,138,771.18</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,159,526.00</u>		<u>1,159,526.00</u>
<b>LIABILITIES</b>			
Current Liabilities	888,400.06	15,924.50	904,324.56
Noncurrent Liabilities	3,289,631.30		3,289,631.30
Other Noncurrent Liabilities	55,162.62		55,162.62
Total Liabilities	<u>4,233,193.98</u>	<u>15,924.50</u>	<u>4,249,118.48</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>2,830,318.00</u>		<u>2,830,318.00</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	42,336,377.24		42,336,377.24
Restricted - Expendable	1,406,885.29		1,406,885.29
Unrestricted	(4,637,175.62)	112,773.79	(4,524,401.83)
Total Net Position	<u>\$ 39,106,086.91</u>	<u>\$ 112,773.79</u>	<u>\$ 39,218,860.70</u>

## NOTES TO THE FINANCIAL STATEMENTS

### Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2015

	North Carolina School of Science and Mathematics	NCSSM Student and Constituent Support Services, Inc.	Eliminations	Total
<b>OPERATING REVENUES</b>				
Student Tuition and Fees	\$ 250,430.20	\$ 0.00	\$ 0.00	\$ 250,430.20
Sales and Services, Net	54,905.67	614,659.61		669,565.28
Other Operating Revenues	43,426.29	121.05		43,547.34
Total Operating Revenues	<u>348,762.16</u>	<u>614,780.66</u>		<u>963,542.82</u>
<b>OPERATING EXPENSES</b>				
Operating Expenses	21,020,946.97	590,235.10	(1,715.00)	21,609,467.07
Depreciation	1,199,316.68			1,199,316.68
Total Operating Expenses	<u>22,220,263.65</u>	<u>590,235.10</u>	<u>(1,715.00)</u>	<u>22,808,783.75</u>
Operating Income (Loss)	<u>(21,871,501.49)</u>	<u>24,545.56</u>	<u>1,715.00</u>	<u>(21,845,240.93)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Appropriations	19,794,698.87			19,794,698.87
Noncapital Grants	73,480.00			73,480.00
Noncapital Gifts	695,251.87	1,715.00	(1,715.00)	695,251.87
Other Nonoperating Revenues	160.88			160.88
Other Nonoperating Expenses	(12,087.14)			(12,087.14)
Net Nonoperating Revenues (Expenses)	<u>20,551,504.48</u>	<u>1,715.00</u>	<u>(1,715.00)</u>	<u>20,551,504.48</u>
Capital Gifts	85,505.51			85,505.51
Increase (Decrease) in Net Position	(1,234,491.50)	26,260.56		(1,208,230.94)
<b>NET POSITION</b>				
Net Position, July 1, 2014 (As Restated)	40,340,578.41	86,513.23		40,427,091.64
Net Position, June 30, 2015	<u>\$ 39,106,086.91</u>	<u>\$ 112,773.79</u>	<u>\$ 0.00</u>	<u>\$ 39,218,860.70</u>

### Condensed Statement of Cash Flows June 30, 2015

	North Carolina School of Science and Mathematics	NCSSM Student and Constituent Support Services, Inc.	Total
Net Cash Provided (Used) by Operating Activities	\$ (20,526,645.74)	\$ 7,312.65	\$ (20,519,333.09)
Net Cash Provided (Used) by Noncapital Financing Activities	20,560,985.21	1,715.00	20,562,700.21
Net Cash Provided (Used) by Capital and Related Financing Activities	(68,734.95)		(68,734.95)
Net Cash Provided (Used) by Investing Activities	(629,774.47)		(629,774.47)
Net Increase (Decrease) in Cash and Cash Equivalents	(664,169.95)	9,027.65	(655,142.30)
Cash and Cash Equivalents, July 1, 2014	1,944,979.54	91,391.34	2,036,370.88
Cash and Cash Equivalents, June 30, 2015	<u>\$ 1,280,809.59</u>	<u>\$ 100,418.99</u>	<u>\$ 1,381,228.58</u>

**NOTE 15 - NET POSITION RESTATEMENT**

As of July 1, 2014, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2014 Net Position as Previously Reported	\$ 43,406,825.64
Restatement:	
Record the School's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.	<u>(2,979,734.00)</u>
<b>July 1, 2014 Net Position as Restated</b>	<b><u><u>\$ 40,427,091.64</u></u></b>





# **REQUIRED SUPPLEMENTARY INFORMATION**

**North Carolina School of Science and Mathematics  
 Required Supplementary Information  
 Schedule of the Proportionate Net Pension Liability  
 Teachers' and State Employees' Retirement System  
 Last Two Fiscal Years**

**Exhibit C-1**

	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.06684%	0.06340%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 783,646.00	\$ 3,849,026.00
Covered-Employee Payroll	\$ 9,998,912.50	\$ 9,641,892.63
Net Pension Liability as a Percentage of Covered-Employee Payroll	7.84%	39.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

**North Carolina School of Science and Mathematics  
 Required Supplementary Information  
 Schedule of University Contributions  
 Teachers' and State Employees' Retirement System  
 Last Ten Fiscal Years**

**Exhibit C-2**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 923,115.00	\$ 868,905.50	\$ 803,169.66	\$ 697,242.55	\$ 473,324.21
Contributions in Relation to the Contractually Determined Contribution	<u>923,115.00</u>	<u>868,905.50</u>	<u>803,169.66</u>	<u>697,242.55</u>	<u>473,324.21</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 10,088,688.52	\$ 9,998,912.50	\$ 9,641,892.63	\$ 9,371,539.67	\$ 9,600,896.67
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually Required Contribution	\$ 363,185.65	\$ 343,212.03	\$ 326,047.96	\$ 264,675.61	\$ 214,887.77
Contributions in Relation to the Contractually Determined Contribution	<u>363,185.65</u>	<u>343,212.03</u>	<u>326,047.96</u>	<u>264,675.61</u>	<u>214,887.77</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 10,173,267.51	\$ 10,214,643.75	\$ 10,690,096.92	\$ 9,950,210.86	\$ 9,183,238.16
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

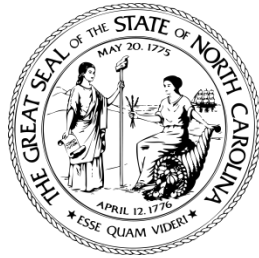
**North Carolina School of Science and Mathematics  
Notes to Required Supplementary Information  
Schedule of University Contributions  
Teachers' and State Employees' Retirement System  
For the Fiscal Year Ended June 30, 2015**

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*Changes of Benefit Terms:*

									<u>Cost of Living Increase</u>		
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>			
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%			

*Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.



# INDEPENDENT AUDITOR'S REPORT

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



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

2 S. Salisbury Street  
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Raleigh, NC 27699-0600  
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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina School of Science and Mathematics (School), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated May 23, 2016. Our report includes a reference to other auditors who audited the financial statements of the North Carolina School of Science and Mathematics Foundation and Subsidiary, the School's discretely presented component unit, as described in our report on the School's financial statements. The financial statements of the North Carolina School of Science and Mathematics Foundation and Subsidiary were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the North Carolina School of Science and Mathematics Foundation and Subsidiary.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

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

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 23, 2016

# ORDERING INFORMATION

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For additional information contact:  
Bill Holmes  
Director of External Affairs  
**919-807-7513**



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This audit required 470 hours at an approximate cost \$46,530.