

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

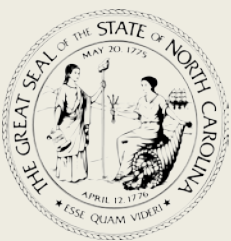


NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

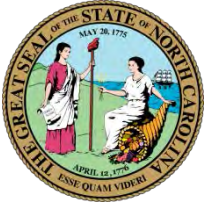
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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

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

We have completed a financial statement audit of North Carolina Central University for the year ended June 30, 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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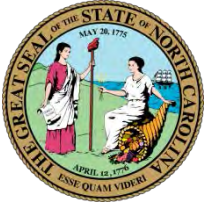
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NCCU Real Estate Foundation, Inc., which represent 6 percent and 1 percent, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Central University, 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

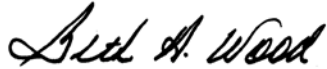
As discussed in Note 17 to the financial statements, during the year ended June 30, 2015, North Carolina Central University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 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 December 17, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 17, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Brief Institutional Highlights

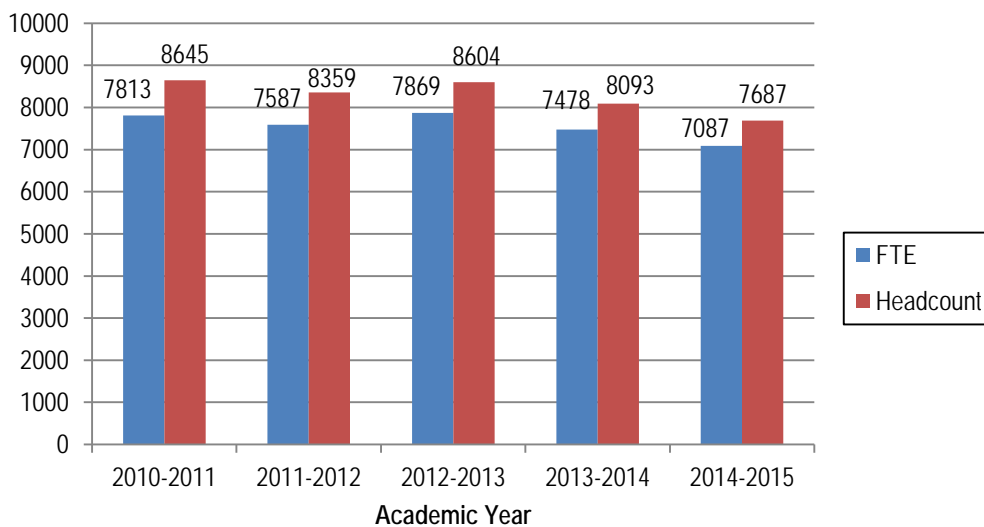
North Carolina Central University earned a 12th place ranking on U.S. News & World Report's 2015 list of historically black colleges and universities (HBCUs). NCCU was also ranked at No. 65 among Best Regional Universities in the South by U.S. News & World Report. Alumni giving participation was a strength in the ranking with a rate of 10 percent while the national average is 8.3 percent. Additional factors contributing to the rating were the increasing freshmen retention rate and the student-faculty ratio of 15-to-1. NCCU was the ninth-highest-rated public HBCU in the country and the second highest among North Carolina HBCUs as ranked by College Choice, an independent online publication for college-bound students and their families. The North Carolina Central University Department of Nursing was ranked by the Nurse Journal as the 13th best out of 1189 nursing programs in the eastern United States. The NCCU Department of Nursing achieved a 90 percent passage rate among students and graduates who took the 2014 qualifying exams for first time nurses which exceeds the 81 percent national average. NCCU continues to have a significant impact on the regional economies of Durham, Wake, Orange, Guilford and Alamance counties. According to an analysis commissioned by the University of North Carolina System, the North Carolina Community College System, and North Carolina Independent Colleges and Universities, the impact of higher education in North Carolina totaled \$63.5 billion with NCCU having a \$563.7 million regional impact in fiscal year 2012-2013 which equates to 8,588 new jobs.

NCCU continues to apply for grants and had a \$0.9 million increase in grant income during the fiscal year. The U.S. Department of Education awarded NCCU a five year grant of \$1.1 million to provide counseling, tutoring and support to help students earn their college degrees. The funds are part of the federal TRIO student Services Support Program. The U.S. Department of Health and Human Services awarded NCCU a \$1 million three-year grant to assist veterans seeking Bachelor of Nursing degrees. Grant income is recognized upon expenditure of funds for the stated purpose.

Adjusted state appropriations were \$82.4 million for fiscal year 2015, which was a \$2.8 million, or a 3.5%, increase from fiscal year 2014. The total fiscal year budget increased by \$1.6 million from \$130.6 million in 2014 to \$132.2 million in 2015.

During fiscal year 2014-15, the University's total enrollment decreased by 406 students, a 5% decline from the previous fiscal year. This can be attributed to an increase in the minimal admissions requirements and in more stringent credit requirements for recipients of state and federal financial aid available to students. The University strategically managed the receipts shortfall through internal realignments. Although there was an enrollment decline, the retention rate increased four points to 77%. This increase is reflective of the University's well-prepared and talented enrollees, resulting from its higher enrollment standards implemented over the past several years.

FTE and Head Count 2010 to 2015



Financial Highlights

The Statement of Net Position reports all of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The sum of assets and deferred outflows of resources, less the liabilities and deferred inflows of resources is reported as "net position." The statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer. The reader may use the net position to gauge the financial position of the University as of June 30, 2015.

Condensed Statement of Net Position

	2015	2014 (As Restated)
Assets		
Current Assets	\$ 35,321,360	\$ 34,940,341
Capital Assets, Net	276,602,512	281,502,168
Other Noncurrent Assets	33,538,023	30,248,778
Total Assets	345,461,895	346,691,287
Deferred Outflows of Resources	5,723,084	6,557,557
Liabilities		
Current Liabilities	13,164,446	15,113,983
Noncurrent Liabilities	96,186,215	115,618,937
Total Liabilities	109,350,661	130,732,920
Deferred Inflows of Resources	16,577,514	
Net Position		
Net Investment in Capital Assets	207,302,563	206,520,864
Restricted - Nonexpendable	16,012,354	15,528,157
Restricted - Expendable	18,987,844	17,727,085
Unrestricted	(17,045,957)	(17,260,182)
Total Net Position	\$ 225,256,804	\$ 222,515,924

As of June 30, 2015, the University's total assets were \$345.5 million as compared to \$346.7 million in the prior year, a decrease of \$1.2 million. The change in assets reflects a decrease of \$4.9 million in net capital assets and an increase in current assets of \$0.4 million and other assets of \$3.3 million. The decrease in net capital assets is due to accumulated depreciation of \$8.8 million offset by current year capital asset purchases of \$3.9 million. The \$3.3 million change in other assets was primarily attributable to an increase in the market value of the endowment investments.

The University's liabilities totaled \$109.4 million at June 30, 2015 and \$130.7 million at June 30, 2014, as restated, reflecting a \$21.4 million, or 16.4%, decrease in total liabilities. The net decrease of \$21.4 million was mainly due to the change in the actuarial valuation for the defined benefit pension plan that resulted in a reduction in the net pension liability of \$19.4 million upon implementation of GASB Statement No. 68. The June 30, 2015 balance consisted primarily of the debt service on the UNC System Pool Revenue Bonds, Series 2009C (\$54.2 million) and student housing bonds (\$17.8 million). See Note 7 of the Notes to the Financial Statements for more information about debt administration.

The total current liabilities of \$13.2 million were covered 2.7 times by current assets of \$35.3 million, which indicates the University's ability to pay current liabilities as they become due.

Deferred inflows of resources increased \$16.6 million due to the recognition of differences between actual and expected pension plan experience, including investment performance, related to the pension plan in accordance with GASB Statement No. 68.

As of June 30, 2015, the University's net position was \$225.3 million, which is an increase of \$2.7 million from the prior year, as restated. The increase in net position was due to the implementation of GASB Statement No. 68 and having to defer recording \$2.4 million in pension contribution expenses, which effectively produced an increase in current year operations of \$2.7 million.

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

	2015	2014 (As Restated)
Operating Revenues		
Student Tuition and Fees, Net	\$ 38,001,106	\$ 40,109,895
Contracts and Grants	8,324,800	7,381,594
Sales and Services, Net	22,909,909	22,896,035
Other Operating Revenues	1,640,535	1,326,348
Total Operating Revenues	<u>70,876,350</u>	<u>71,713,872</u>
Operating Expenses		
Salaries and Benefits	115,283,724	117,389,686
Supplies and Materials	10,978,788	12,173,070
Services	27,216,863	29,001,094
Scholarships and Fellowships	12,807,416	13,229,772
Utilities	5,507,658	5,625,894
Depreciation	8,841,480	8,787,645
Operating Expenses	<u>180,635,929</u>	<u>186,207,161</u>
Operating Loss	<u>(109,759,579)</u>	<u>(114,493,289)</u>
Nonoperating Revenues and Expenses		
State Appropriations	82,405,806	79,621,943
Noncapital Grants	31,008,076	32,070,971
Noncapital Gifts	433,685	82,717
Investment Income, Net	2,934,811	4,242,889
Other Nonoperating Expenses	(4,281,998)	(4,043,928)
Income (Loss) Before Other Revenues	<u>2,740,801</u>	<u>(2,518,697)</u>
Capital Appropriations	79	1,807,823
Capital Grants		<u>64,930</u>
Total Other Revenues	<u>79</u>	<u>1,872,753</u>
Increase (Decrease) in Net Position	2,740,880	(645,944)
Net Position - Beginning of Year	222,515,924	242,118,695
Restatement - GASB 68 Implementation		<u>(18,956,827)</u>
Net Position - End of Year	<u>\$ 225,256,804</u>	<u>\$ 222,515,924</u>

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

Operating revenues were \$70.9 million at June 30, 2015, a decrease of \$0.8 million from 2014. Revenues from tuition and fees decreased by \$2.1 million due to the five-percent decrease in full-time equivalent students. Grant revenues increased modestly by \$0.9 million while sales and services revenue remained constant. Meal plan sales and residential

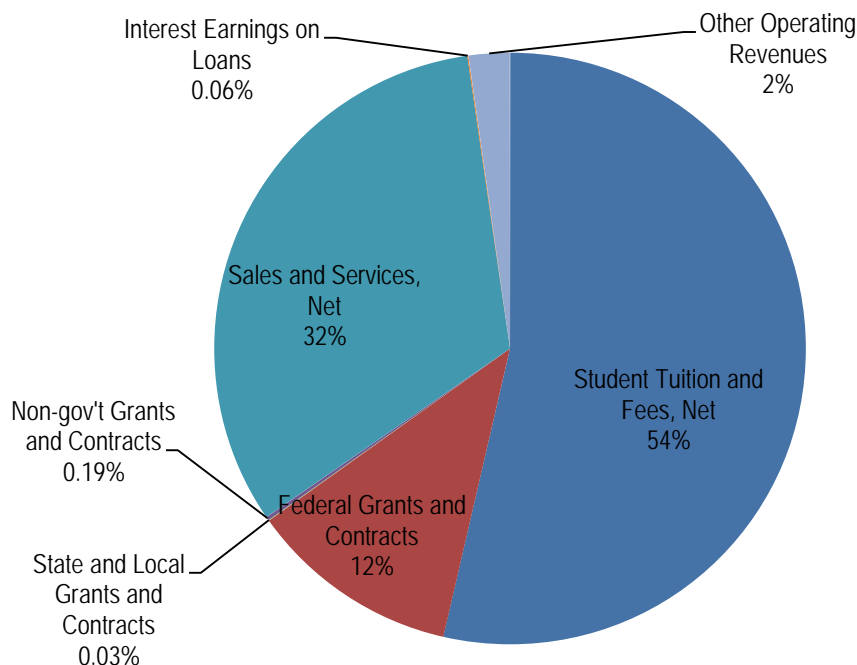
housing services generate the greatest portion of sales and services revenue and are directly impacted by the number of students enrolled and living on campus; however, the meal plan rates increased 7.5% from the prior year, which contributed to the sales and services revenue remaining constant. All other operating revenues increased by \$0.3 million.

Total operating expenses decreased by \$5.6 million, or 3%, when compared to 2014. As a result of the GASB 68 implementation, salaries and benefits decreased by \$2.1 million primarily by reason of a reduction in recognized pension expense under the standard while strategic budget realignments reduced supplies and materials expenditures by \$1.2 million, purchased services by \$1.8 million, and scholarships and fellowships by \$0.4 million.

Overall, the University sustained a total operating loss of \$109.8 million in the current fiscal year, which is \$4.7 million less than the loss in fiscal year 2014. Operating losses are likely to continue due, in part, to the accounting requirement to categorize state appropriations (a major source of funding) as nonoperating revenues. In 2015, state appropriations were \$82.4 million.

Nonoperating revenues and expenses stem from transactions that occur outside of the primary scope of the University's purpose for existence and for which no goods or services are provided. State appropriations, noncapital grants and gifts, investment income/expenses, and capital-related interest primarily represent the nonoperating revenues and expenses. At June 30, 2015, investment income was \$2.9 million, which was a decrease of \$1.3 million from the prior fiscal year due to fluctuating market conditions. Noncapital grants decreased by \$1.1 million, which was mostly the result of receiving less federal nonexchange monies for Title III programs and financial aid.

Operating Revenues by Source



Capital Assets and Debt Administration

As of June 30, 2015, there was construction in progress of \$0.8 million due to an energy management project that is expected to produce savings in future years. During the year, there was a \$4 million increase in small projects, machinery, equipment, and other capital assets. For additional information concerning capital assets, see Notes 1(H), 5, and 15(A) in the Notes to the Financial Statements.

As of June 30, 2015, the University had \$85.4 million in outstanding bonds, notes, and leases payable of which \$54.2 million was for outstanding bonds issued by the UNC System Pool Revenue Bonds, Series 2009C to complete the construction of student housing, a parking deck, and renovations to the Walker Athletic Complex.

At June 30, 2015, the University's Moody's Investor Service rating was A3. The rating has the potential to affect the cost of capital for any future borrowing that the University undertakes.

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

Economic Outlook

NCCU remains at the forefront of research and economic development within North Carolina. Through the Julius L. Chambers Biomedical/Biotechnology Research Institute (BBRI) and the Biomanufacturing Research Institute and Technology Enterprise (BRITE), NCCU will continue to go beyond being just a deliverer of information, to being an institution that generates information, contributes to the general overall pool of knowledge, and attracts enhanced support from sponsors. As such, the University collaborated with the Media Lab of the Massachusetts Institute of Technology (MIT) to open a Fabrication Laboratory (Fab Lab) designed to provide STEAM (Science, Technology, Engineering, Arts, and Mathematics) education through the use of digital fabrication technology. The Fab Lab enriches our ability to continue to be a center of innovation, creativity, and collaboration.

As previously stated, there was a 5% decline in full-time and part-time students in FY 2014-15. However, enrollment is anticipated to be higher in FY 2015-2016 due to enhanced recruitment efforts, relaxed Parent Plus Loan requirements, and dual degree partnerships with Durham Technical Community College and North Carolina State University. All these factors, coupled with stronger student programming, will aid in upward enrollment trends, retention and graduation rates.

Moreover, the University will continue to strategically manage its resources, re-engineer processes to be more efficient, and enhance fundraising strategies for private contributions. NCCU's vision is "to be recognized as one of the region's leading public universities, known for academic excellence..." which will open the Gateway to Opportunity for every student.



FINANCIAL STATEMENTS

North Carolina Central University
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 15,026,687
Restricted Cash and Cash Equivalents	10,034,051
Restricted Short-Term Investments	1,735,968
Receivables, Net (Note 4)	7,465,186
Due from University Component Units	22,472
Inventories	855,899
Notes Receivable, Net (Note 4)	147,957
Other Assets	33,140
	<hr/>
Total Current Assets	35,321,360

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,026,421
Restricted Due from Primary Government	1,232
Endowment Investments	28,164,800
Restricted Investments	1,254,837
Notes Receivable, Net (Note 4)	3,090,733
Capital Assets - Nondepreciable (Note 5)	8,917,907
Capital Assets - Depreciable, Net (Note 5)	267,684,605
	<hr/>
Total Noncurrent Assets	310,140,535

Total Assets	<hr/> 345,461,895 <hr/>
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DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	1,063,037
Deferred Outflows Related to Pensions	4,660,047
	<hr/>
Total Deferred Outflows of Resources	5,723,084

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	4,326,099
Due to Primary Government	76,468
Funds Held for Others	22,472
Unearned Revenue	3,550,505
Interest Payable	932,284
Long-Term Liabilities - Current Portion (Note 7)	4,256,618
	<hr/>
Total Current Liabilities	13,164,446

Noncurrent Liabilities:

Deposits Payable	400
Funds Held for Others	768,511
U. S. Government Grants Refundable	2,089,298
Hedging Derivative Liability	1,063,037
Long-Term Liabilities, Net (Note 7)	92,264,969
	<hr/>
Total Noncurrent Liabilities	96,186,215

Total Liabilities	<hr/> 109,350,661 <hr/>
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	<hr/> 16,577,514 <hr/>
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North Carolina Central University
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	207,302,563
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,636,798
Endowed Professorships	9,693,855
Loans	1,681,701
Expendable:	
Scholarships and Fellowships	4,013,853
Research	75,983
Endowed Professorships	10,700,701
Departmental Uses	2,319,397
Capital Projects	1,868,338
Other	9,572
Unrestricted	<u>(17,045,957)</u>
Total Net Position	<u><u>\$ 225,256,804</u></u>

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

North Carolina Central University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 38,001,106
Federal Grants and Contracts	8,166,042
State and Local Grants and Contracts	22,280
Nongovernmental Grants and Contracts	136,478
Sales and Services, Net (Note 10)	22,909,909
Interest Earnings on Loans	42,976
Other Operating Revenues	1,597,559
	<hr/>
Total Operating Revenues	70,876,350

EXPENSES

Operating Expenses:

Salaries and Benefits	115,283,724
Supplies and Materials	10,978,788
Services	27,216,863
Scholarships and Fellowships	12,807,416
Utilities	5,507,658
Depreciation	8,841,480
	<hr/>
Total Operating Expenses	180,635,929

Operating Loss	<hr/> <u>(109,759,579)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	82,405,806
Noncapital Grants - Student Financial Aid	20,327,680
Noncapital Grants	10,680,396
Noncapital Gifts	433,685
Investment Income (Net of Investment Expense of \$137,231)	2,934,811
Interest and Fees on Debt	(4,380,881)
Other Nonoperating Revenues	98,883
	<hr/>

Net Nonoperating Revenues	112,500,380
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Income Before Other Revenues	2,740,801
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Capital Appropriations	<hr/> 79
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Increase in Net Position	2,740,880
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NET POSITION

Net Position - July 1, 2014, as Restated (Note 17)	<hr/> 222,515,924
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Net Position - June 30, 2015	<hr/> <u>\$ 225,256,804</u>
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The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Central University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 70,265,962
Payments to Employees and Fringe Benefits	(117,728,779)
Payments to Vendors and Suppliers	(44,366,483)
Payments for Scholarships and Fellowships	(12,807,416)
Loans Issued	(449,904)
Collection of Loans	501,307
Interest Earned on Loans	45,904
Other Receipts	14,683
	<hr/>
Net Cash Used by Operating Activities	(104,524,726)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	82,405,806
Noncapital Grants - Student Financial Aid	20,327,680
Noncapital Grants	11,100,093
Noncapital Gifts	433,685
William D. Ford Direct Lending Receipts	81,975,379
William D. Ford Direct Lending Disbursements	(81,975,379)
Related Activity Agency Disbursements	(1,016)
Other Receipts	98,883
	<hr/>
Net Cash Provided by Noncapital Financing Activities	114,365,131

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	8,126,589
State Capital Appropriations	79
Acquisition and Construction of Capital Assets	(3,771,600)
Principal Paid on Capital Debt and Leases	(9,105,583)
Interest and Fees Paid on Capital Debt and Leases	(3,875,190)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(8,625,705)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,473,706
Investment Income	1,110,974
Purchase of Investments and Related Fees	(7,477,934)
	<hr/>
Net Cash Used by Investing Activities	(893,254)
	<hr/>
Net Increase in Cash and Cash Equivalents	321,446
Cash and Cash Equivalents - July 1, 2014	25,765,713
	<hr/>
Cash and Cash Equivalents - June 30, 2015	\$ 26,087,159

North Carolina Central University
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	\$ (109,759,579)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,841,480
Allowances, Write-Offs, and Amortizations	182,708
Pension Expense	2,016,048
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(1,444,925)
Inventories	225,876
Notes Receivable, Net	51,403
Accounts Payable and Accrued Liabilities	(926,001)
Due to Federal Agencies	3,015
Due to Primary Government	(57,050)
US Government Grants Refundable	14,683
Unearned Revenue	696,367
Deferred Outflows for Contributions Subsequent to the Measurement Date	(4,465,497)
Compensated Absences	96,746
	<u>96,746</u>
Net Cash Used by Operating Activities	<u>\$ (104,524,726)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 15,026,687
Restricted Cash and Cash Equivalents	10,034,051
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,026,421</u>
Total Cash and Cash Equivalents - June 30, 2015	<u>\$ 26,087,159</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 537,919
Change in Fair Value of Investments	1,667,481
Loss on Disposal of Capital Assets	(19,359)
Amortization of Bond Discounts	14,497

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

North Carolina Central University Foundation, Inc.
Statement of Financial Position
June 30, 2015

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,416,683
Investments		12,499,329
Cash Surrender Value of Life Insurance		239,283
Beneficial Interest in Perpetual Trust		1,848,926
Receivables, Net		697,095
Property and Equipment, Net		20,414
		<hr/>
Total Assets		17,721,730

LIABILITIES

Accounts Payable and Accrued Expenses		275
Funds Held for Others		36,440
		<hr/>
Total Liabilities		36,715

NET ASSETS

Unrestricted		793,288
Temporarily Restricted		4,429,655
Permanently Restricted		12,462,072
		<hr/>
Total Net Assets	\$	17,685,015

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

**North Carolina Central University Foundation, Inc.
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2015**

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES				
Revenues, Gains, and Other Support:				
Contributions	\$ 254,166	\$ 2,739,646	\$ 987,763	\$ 3,981,575
Interest and Dividends, Net	33,150	196,203	5,844	235,197
Realized and Unrealized Gains on Investments	34,814	(15,570)	(9,844)	9,400
Other Income	12,321	5,085	(85,780)	(68,374)
Net Assets Released from Donor Restrictions	3,213,425	(3,213,425)		
Total Revenues, Gains, and Other Support	<u>3,547,876</u>	<u>(288,061)</u>	<u>897,983</u>	<u>4,157,798</u>
EXPENSES				
Program Services:				
Scholarships and Grants	956,966			956,966
University Support	2,155,456			2,155,456
Management and General	599,940			599,940
Provision for Bad Debts		92,744	69,754	162,498
Total Expenses	<u>3,712,362</u>	<u>92,744</u>	<u>69,754</u>	<u>3,874,860</u>
Changes in Net Assets Before Net Asset Transfers	<u>(164,486)</u>	<u>(380,805)</u>	<u>828,229</u>	<u>282,938</u>
Transfers	<u>(32,849)</u>	<u>(5,077)</u>	<u>37,926</u>	
Changes in Net Assets	(197,335)	(385,882)	866,155	282,938
NET ASSETS				
Net Assets at Beginning of Year	<u>990,623</u>	<u>4,815,537</u>	<u>11,595,917</u>	<u>17,402,077</u>
Net Assets at End of Year	<u>\$ 793,288</u>	<u>\$ 4,429,655</u>	<u>\$ 12,462,072</u>	<u>\$ 17,685,015</u>

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

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

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

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

Separate financial statements for the Real Estate Foundation may be obtained from the University Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707, or by calling 919-530-7432. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

Discretely Presented Component Unit - The North Carolina Central University Foundation, Inc. (NCCU Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

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

The NCCU Foundation is a private 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 NCCU Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2015, the NCCU Foundation distributed \$1,446,129 to the University for both restricted and unrestricted purposes. The University remitted \$145,362 in payroll deducted employee contributions and \$25,077 in other reimbursements to the NCCU Foundation. Complete financial statements for the Foundation can be obtained from the University Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707, or by calling 919-530-7432.

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

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

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange,

include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. The fair value for investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc. University management reviews and evaluates the values provided by UNC Management Company, Inc. as well as the valuation methods and assumptions used in determining the fair value of such investments. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

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

constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50-75 years
Machinery & Equipment	5-25 years
General Infrastructure	10-75 years

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

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

Revenue bonds payable are reported net of unamortized discounts. The University amortizes bond discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the new debt using the straight-line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

The net pension liability represents the University'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 University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

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

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, and postal services. In

addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$24,519,958 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission 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 \$1,899. The carrying amount of the University's deposits not with the State Treasurer was \$1,565,302 and the bank balance was \$1,577,201. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2015, the University's uninsured and uncollateralized bank balance was \$1,476,800.

B. Investments

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

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

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

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

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

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

Investments are subject to the following risks.

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

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value
UNC Investment Fund	\$ 21,234,204

UNC Investment Fund, LLC - At June 30, 2015, the University's investments include \$21,234,204 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Investment Maturities (in Years)	
	Fair Value	Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 1,882,419	\$ 1,882,419
Other Securities		
Domestic Stocks	8,038,982	
Total Non-Pooled Investments	\$ 9,921,401	

At June 30, 2015, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	Unrated
Money Market Mutual Funds	\$ 1,882,419	\$ 1,791,831	\$ 90,588

Rating Agency: Moody's

Total Investments - The following table presents the fair value of the total investments at June 30, 2015:

Investment Type	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 1,882,419
Other Securities	
UNC Investment Fund	21,234,204
Domestic Stocks	8,038,982
Total Investments	\$ 31,155,605

Component Units - Investments of the University's discretely presented component unit, the NCCU Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the NCCU Foundation, Inc. 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
Cash and Cash Equivalents	\$ 618,901
Equity Securities	7,142,207
Debt Securities	1,498,729
U. S. Government Obligations	682,954
Mutual Funds	1,664,285
Exchange Traded Funds	556,874
Asset Backed Securities	335,379
Total Investments	\$ 12,499,329

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2015, is as follows:

Cash on Hand	\$ 1,899
Amount of Deposits with Private Financial Institutions	1,565,302
Deposits in the Short-Term Investment Fund	24,519,958
Investment in the UNC Investment Fund	21,234,204
Non-Pooled Investments	<u>9,921,401</u>
Total Deposits and Investments	<u>\$ 57,242,764</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 15,026,687
Restricted Cash and Cash Equivalents	10,034,051
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>1,026,421</u>
Total Deposits	<u>26,087,159</u>
Investments	
Current:	
Restricted Short-Term Investments	1,735,968
Noncurrent:	
Endowment Investments	28,164,800
Restricted Investments	<u>1,254,837</u>
Total Investments	<u>31,155,605</u>
Total Deposits and Investments	<u>\$ 57,242,764</u>

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are determined by 5.5% of the 12-quarter moving average of the fund’s market value. If current year earnings do not

meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University's Board of Trustees of the Endowment Fund. At June 30, 2015, net appreciation of \$13,848,037 was available to be spent, of which \$12,852,435 was classified in net position as Restricted Expendable: Scholarships and Fellowships and Restricted Expendable Endowed Professorships, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 7,079,277	\$ 3,914,098	\$ 3,165,179
Accounts	861,644		861,644
Intergovernmental	3,351,728		3,351,728
Investment Earnings	86,635		86,635
Total Current Receivables	<u>\$ 11,379,284</u>	<u>\$ 3,914,098</u>	<u>\$ 7,465,186</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 319,347</u>	<u>\$ 171,390</u>	<u>\$ 147,957</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 6,680,847</u>	<u>\$ 3,590,114</u>	<u>\$ 3,090,733</u>

NOTE 5 - 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	\$ 7,274,669	\$ 0	\$ 0	\$ 7,274,669
Art, Literature, and Artifacts	860,540	4,300		864,840
Construction in Progress		778,398		778,398
Total Capital Assets, Nondepreciable	<u>8,135,209</u>	<u>782,698</u>		<u>8,917,907</u>
Capital Assets, Depreciable:				
Buildings	331,451,048		74,427	331,376,621
Machinery and Equipment	37,188,466	3,178,485	36,960	40,329,991
General Infrastructure	21,769,608			21,769,608
Total Capital Assets, Depreciable	<u>390,409,122</u>	<u>3,178,485</u>	<u>111,387</u>	<u>393,476,220</u>
Less Accumulated Depreciation for:				
Buildings	87,826,213	5,636,443	74,427	93,388,229
Machinery and Equipment	17,321,410	2,277,093	17,601	19,580,902
General Infrastructure	11,894,540	927,944		12,822,484
Total Accumulated Depreciation	<u>117,042,163</u>	<u>8,841,480</u>	<u>92,028</u>	<u>125,791,615</u>
Total Capital Assets, Depreciable, Net	<u>273,366,959</u>	<u>(5,662,995)</u>	<u>19,359</u>	<u>267,684,605</u>
Capital Assets, Net	<u>\$ 281,502,168</u>	<u>\$ (4,880,297)</u>	<u>\$ 19,359</u>	<u>\$ 276,602,512</u>

The University 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 \$2,026,645 and is subject to security provisions in the agreement to ensure timely debt service payments. The value of the energy savings improvement assets includes \$778,398 which has been completed as of June 30, 2015 and \$1,248,247 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 7.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 3,121,783
Accrued Payroll	848,820
Contract Retainage	37,605
Intergovernmental Payables	308,738
Other	9,153
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 4,326,099</u>

NOTE 7 - LONG-TERM LIABILITIES

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

	July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	\$ 78,945,000	\$ 0	\$ 6,990,000	\$ 71,955,000	\$ 2,140,000
Less: Unamortized Discount	(284,023)		(14,497)	(269,526)	
Total Revenue Bonds Payable, Net	<hr/> 78,660,977		<hr/> 6,975,503	<hr/> 71,685,474	<hr/> 2,140,000
Net Pension Liability	23,944,099		19,354,188	4,589,911	
Notes Payable	5,965,023	7,069,589	813,316	12,221,296	917,639
Capital Leases Payable	1,430,164	1,057,000	1,302,266	1,184,898	187,491
Compensated Absences	6,743,262	5,375,345	5,278,599	6,840,008	1,011,488
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	<u>\$ 116,743,525</u>	<u>\$ 13,501,934</u>	<u>\$ 33,723,872</u>	<u>\$ 96,521,587</u>	<u>\$ 4,256,618</u>

Additional information regarding capital lease obligations is included in Note 9.
Additional information regarding the net pension liability is included in Note 12.

B. Revenue Bonds Payable - The University was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015	See Table Below
Revenue Bonds Payable							
<u>The University of North Carolina System Pool Revenue Bonds</u>							
Housing System Revenue Bonds	2004B	4.0 % to 5.0%	04/01/2023	\$ 8,670,000	\$ 8,670,000	\$ 0	
Housing System, Parking Facility	2009C	4.0% to 5.5%	10/01/2034	60,675,000	6,505,000	54,170,000	
Total of The University of North Carolina System Pool Revenue Bonds				69,345,000	15,175,000	54,170,000	
<u>NCCU Real Estate Foundation, Inc.</u>							
Real Estate Foundation Housing System	2003A	3.46% *	10/01/2034	21,475,000	3,690,000	17,785,000	(1)
Total Revenue Bonds Payable (principal only)				<u>\$ 90,820,000</u>	<u>\$ 18,865,000</u>	71,955,000	
Less: Unamortized Discount						(269,526)	
Total Revenue Bonds Payable, Net						<u>\$ 71,685,474</u>	

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

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year		Estimate of % of Revenues Pledged	
			Revenues Net of Expenses	Principal		
(1)	Housing Revenues	\$ 20,671,793	\$ 589,176	\$ 480,000	\$ 8,218	25%

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

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

Student Housing Facilities Revenue Bonds (Series 2003): In October of 2003, the North Carolina Capital Facilities Finance Agency issued revenue bonds consisting of Series 2003A for \$21,475,000 that has a final maturity date of October 1, 2034. The series was issued to provide funds to the Real Estate Foundation (Foundation) for the purpose of financing the acquisition and construction of certain student housing facilities at North Carolina Central University. The bond proceeds were used to fund a portion of construction period interest, to fund a debt service reserve fund for the 2003A bonds, and to pay certain costs of issuance of the bonds. The University entered into a loan agreement with the Foundation dated October 1, 2003, whereby the bond proceeds were

loaned to the Foundation. Under the terms of the loan agreement, the Foundation agrees to provide funds for the principal and interest payments due on the bonds. The loan will be repaid over a 30-year period with variable interest rates set on a weekly basis, which was 0.08% for Series 2003A bonds at June 30, 2015. The interest rate can be converted from time to time to another interest rate made at the option of the Foundation given certain established criteria. The 2003A bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The payment of principal and interest on the Series 2003A bonds is secured by an irrevocable, direct-pay letter of credit issued by a financial institution, which originally expired on October 15, 2006. The letter of credit was subsequently extended until August 31, 2016, by request from the Foundation by delivering a notice of extension to the Trustee. The Foundation is entitled to draw up to \$17,986,563. A commitment fee was paid to the financial institution in the amount of \$109,098 for the letter of credit on the date the bonds were issued. The Foundation is required to pay a quarterly fee for the letter of credit of 1.2% per annum based on the unused portion of the letter of credit commitment. The Foundation paid credit facility fees in the amount of \$220,792 during the year ended June 30, 2015. The total amount drawn and paid on the letter of credit for the year ended June 30, 2015 was \$488,218.

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

The Series 2003A bonds have remarketing fees, an upfront charge paid to the remarketing agent to reset the interest rates on a weekly basis. At June 30, 2015, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2015, the Foundation paid remarketing fees of \$22,207.

Swap Payments and Associated Debt: As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2015, debt service requirements of the University's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows:

Fiscal Year	Interest Rate Swap					
	Variable-Rate Bond			Remarketing	Interest Rate Swaps, Net	Total
	Principal	Interest	Letter of Credit			
2016	\$ 505,000	\$ 13,993	\$ 209,887	\$ 21,863	\$ 236,805	\$ 987,548
2017	535,000	13,532	202,975	21,143	230,291	1,002,941
2018	565,000	13,085	196,272	20,445	220,822	1,015,624
2019	595,000	12,614	189,208	19,709	212,873	1,029,404
2020	630,000	12,149	182,232	18,983	205,603	1,048,967
2021-2025	3,710,000	52,117	781,765	81,434	768,004	5,393,320
2026-2030	4,865,000	34,795	521,926	54,367		5,476,088
2031-2035	6,380,000	12,088	181,323	18,888		6,592,299
Total Requirements	\$ 17,785,000	\$ 164,373	\$ 2,465,588	\$ 256,832	\$ 1,874,398	\$ 22,546,191

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

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2016	\$ 2,140,000	\$ 2,767,105	\$ 236,805	\$ 917,639	\$ 373,870
2017	2,235,000	2,697,900	230,291	1,149,144	372,868
2018	2,340,000	2,623,516	220,822	1,198,186	339,936
2019	2,460,000	2,536,483	212,873	1,247,164	305,379
2020	2,590,000	2,440,393	205,603	1,293,469	269,191
2021-2025	15,105,000	10,598,905	768,004	5,192,504	771,854
2026-2030	19,520,000	7,314,555		1,223,190	89,033
2031-2035	25,565,000	2,765,526			
Total Requirements	\$ 71,955,000	\$ 33,744,383	\$ 1,874,398	\$ 12,221,296	\$ 2,522,131

The effective interest rate on the variable rate Student Housing Facilities Revenue Bonds (including the effect of the swap) is calculated at 3.46% at June 30, 2015. Interest rates are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions. This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 8 Derivative Instruments.

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

On December 17, 2014, the University issued a promissory note of \$4,987,000 with an interest rate of 2.06% to PNC Bank, National Association for a current refunding of \$4,945,000 of outstanding UNC

System Pool Revenue Bonds, Series 2004B bonds with an average interest rate of 4.14%. The refunding was undertaken to reduce total debt service payments by \$484,688 over the next 9 years and resulted in an economic gain of \$400,234.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2015, the outstanding balance of prior year defeased bonds was \$4,265,000.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Energy Performance Contract	FifthThird Bank	4.81%	12/09/2026	\$ 6,532,959	\$ 881,252	\$ 5,651,707
Refund 2004B Bonds	PNC Bank National Association	2.06%	04/01/2023	4,987,000	500,000	4,487,000
UNC ESCO Energy Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	2,082,589		2,082,589
Total Notes Payable				<u>\$ 13,602,548</u>	<u>\$ 1,381,252</u>	<u>\$ 12,221,296</u>

NOTE 8 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2015 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2015	
		Classification	Increase	Classification	Liability
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap 2003A Bonds	\$ 7,114,000	Deferred Outflow of Resources	\$ 10,408	Hedging Derivative	\$ (1,063,037)

Hedging derivative instruments held at June 30, 2015 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Hedging Derivative Instruments	Hedge of Changes in Cash Flows on the Student Housing Facilities Revenue Series 2003A Bonds	\$ 7,114,000	4/1/2004	10/1/2024	Pay 3.515% Receive 70% 1 Mo. LIBOR

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

The University's interest rate swap hedging derivative has been determined to be effective as of June 30, 2015 using the regression analysis method.

Hedging Derivative Risks

Credit Risk: At June 30, 2015, the NCCU Real Estate Foundation, Inc. (Foundation) was not exposed to credit risk because the swap had a negative fair value. When the fair value of the swap is negative, the Foundation owes the counterparty and, therefore, it does not possess credit risk. However, should interest rates change and the fair value of the swap become positive, the Foundation would be exposed to credit risk. Wells Fargo's current long-term ratings are Aa1 by Moody's Investor's Service and AA- by Standard and Poor's Corporation (S&P).

Interest Rate Risk: The Foundation is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because bonds are trading at a yield above 70% of USD-LIBOR-BBA Index, the swap has a negative fair value as of June 30, 2015.

Basis Risk: The swap exposes the Foundation to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The Foundation receives 70% of 1-month USD-LIBOR-BBA Index. If the relationship of the Foundation's bonds trade to a percentage of LIBOR greater than 70%, the Foundation will experience an increase in debt service above the fixed rate on the swap. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.52% and the actual rate of 3.46% at June 30, 2015. As of June 30, 2015, the rate on the Foundation's bonds was 0.08% whereas 70% of LIBOR was 0.130%.

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

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

NOTE 9 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to general infrastructure and machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 227,537
2017	227,537
2018	133,128
2019	133,128
2020	<u>584,658</u>
Total Minimum Lease Payments	1,305,988
Amount Representing Interest (2.98% to 7.9% Rate of Interest)	<u>121,090</u>
Present Value of Future Lease Payments	<u><u>\$ 1,184,898</u></u>

General infrastructure acquired under capital lease amounted to \$566,900 at June 30, 2015. Machinery and equipment acquired under capital lease amounted to \$1,057,000 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 \$194,986 at June 30, 2015.

NOTE 10 - REVENUES

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

NOTES TO THE FINANCIAL STATEMENTS

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 52,363,970	\$ 0	\$ 14,149,739	\$ 213,125	\$ 38,001,106
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 13,717,439	\$ 77,681	\$ 3,207,669	\$ 0	\$ 10,432,089
Dining	9,040,815	289,668	2,454,356		6,296,791
Student Union Services	1,496,413		406,180		1,090,233
Health, Physical Education, and Recreation Services	885,502	8,840	240,357		636,305
Bookstore	228,348				228,348
Parking	1,468,100	21,875			1,446,225
Athletic	1,703,105	474,668	483,506		744,931
Other	1,572,876	525,897			1,046,979
Sales and Services of Education and Related Activities	2,084,924	1,096,916			988,008
Total Sales and Services	\$ 32,197,522	\$ 2,495,545	\$ 6,792,068	\$ 0	\$ 22,909,909

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 61,553,726	\$ 3,415,618	\$ 4,277,658	\$ 0	\$ 313,837	\$ 0	\$ 69,560,839
Research	4,483,985	798,948	1,342,552				6,625,485
Public Service	863,112	22,217	143,330				1,028,659
Academic Support	11,698,807	3,550,566	1,243,832				16,493,205
Student Services	3,455,835	139,280	1,145,063				4,740,178
Institutional Support	12,434,911	1,124,435	4,121,435				17,680,781
Operations and Maintenance of Plant	5,112,618	162,566	2,474,186		4,628,106		12,377,476
Student Financial Aid	1,193,875	34,962	101,122	12,807,416			14,137,375
Auxiliary Enterprises	12,470,807	1,730,196	12,367,685		565,715		27,134,403
Depreciation						8,841,480	8,841,480
Pension Expense	2,016,048						2,016,048
Total Operating Expenses	\$ 115,283,724	\$ 10,978,788	\$ 27,216,863	\$ 12,807,416	\$ 5,507,658	\$ 8,841,480	\$ 180,635,929

NOTE 12 - 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 University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were \$4,465,497, and employee contributions were \$2,928,195 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 University reported a liability of \$4,589,911 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 University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University's proportion was 0.391%, which was a decrease of 0.76% 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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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:

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$32,949,564	\$4,589,911	\$(19,355,684)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the University recognized pension expense of \$2,016,048. At June 30, 2015, the University 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	\$ 1,069,883
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		15,507,631
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	194,550	
Contributions Subsequent to the Measurement Date	4,465,497	
Total	<u>\$ 4,660,047</u>	<u>\$ 16,577,514</u>

Deferred outflows of resources related to pensions, \$4,465,497, 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:	Amount
2016	\$ 4,107,870
2017	4,107,870
2018	4,107,870
2019	4,059,354
Total	\$ 16,382,964

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

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

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

For the current fiscal year, the University had a total payroll of \$91,789,926, of which \$24,689,941 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,688,792 and \$1,481,396, respectively. Forfeitures reflected in pension expense, recognized during the reporting period ended June 30, 2015, were \$184,818.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (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 University 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 University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$4,034,776, \$4,212,332, and \$4,163,223, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of 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 University 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 University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$301,322, \$343,227, and \$345,626, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

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 University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University has chosen to secure Broad Form Coverage on all University buildings, including those not supported by the General Fund. Broad Form covers loss from fire and lightning as well as, falling objects, weight of snow, ice or sleet, water damage, collapse, and glass breakage. All buildings have a \$5,000 deductible.

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

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

3. Employee Dishonesty and Computer Fraud

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

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 University's primary responsibility is to arrange for and

provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

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.

5. Other Insurance Held by the University

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

The University also carries professional internship insurance on students working in health fields. Departments that secure this coverage include Nursing, Psychology, Communication Disorders, Physical Education and Recreation, Athletic Training and Social Work. Medical Liability insurance is carried on employees of the University who are accredited medical professionals and who practice in a clinical setting on campus.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$722,813 at June 30, 2015.
- B. **Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements for a liability based on probability of settlement. University management is of the opinion that the liability for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 16 - BLENDED COMPONENT UNIT

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

*Condensed Statement of Net Position
June 30, 2015*

	University	NCCU Real Estate Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	\$ 33,116,697	\$ 5,755,168	\$ (3,550,505)	\$ 35,321,360
Capital Assets	262,041,810	14,560,702		276,602,512
Other Noncurrent Assets	33,538,023			33,538,023
Total Assets	328,696,530	20,315,870	(3,550,505)	345,461,895
Deferred Outflows of Resources	4,660,047	1,063,037		5,723,084
LIABILITIES				
Current Liabilities	12,641,016	4,073,935	(3,550,505)	13,164,446
Noncurrent Liabilities	77,975,464	18,210,751		96,186,215
Total Liabilities	90,616,480	22,284,686	(3,550,505)	109,350,661
Deferred Inflows of Resources	16,577,514			16,577,514
NET POSITION				
Net Investment in Capital Assets	208,829,837	(1,527,274)		207,302,563
Restricted - Nonexpendable	16,012,354			16,012,354
Restricted - Expendable	18,987,844			18,987,844
Unrestricted	(17,667,452)	621,495		(17,045,957)
Total Net Position	\$ 226,162,583	\$ (905,779)	\$ 0	\$ 225,256,804

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

	University	NCCU Real Estate Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Operating Revenues	\$ 70,876,350	\$ 2,085,793	\$ (2,085,793)	\$ 70,876,350
OPERATING EXPENSES				
Operating Expenses	172,784,533	1,095,709	(2,085,793)	171,794,449
Depreciation	8,440,572	400,908		8,841,480
Total Operating Expenses	181,225,105	1,496,617	(2,085,793)	180,635,929
Operating Income (Loss)	(110,348,755)	589,176		(109,759,579)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	82,405,806			82,405,806
Noncapital Grants and Gifts	31,441,761			31,441,761
Investment Income	2,934,709	102		2,934,811
Other Nonoperating Expenses	(3,774,058)	(507,940)		(4,281,998)
Net Nonoperating Revenues (Expenses)	113,008,218	(507,838)		112,500,380
Capital Appropriations	79			79
Increase in Net Position	2,659,542	81,338		2,740,880
NET POSITION				
Net Position, July 1, 2014, as Restated	223,503,041	(987,117)		222,515,924
Net Position, June 30, 2015	\$ 226,162,583	\$ (905,779)	\$ 0	\$ 225,256,804

Condensed Statement of Cash Flows
June 30, 2015

	University	NCCU Real Estate Foundation, Inc.	Total
Net Cash Provided (Used) by Operating Activities	\$ (106,176,058)	\$ 1,651,332	\$ (104,524,726)
Net Cash Provided by Noncapital Financing Activities	114,365,131		114,365,131
Net Cash Used by Capital and Related Financing Activities	(7,638,270)	(987,435)	(8,625,705)
Net Cash Used by Investing Activities	(893,254)		(893,254)
Net Increase (Decrease) in Cash and Cash Equivalents	(342,451)	663,897	321,446
Cash and Cash Equivalents, July 1, 2014	20,757,455	5,008,258	25,765,713
Cash and Cash Equivalents, June 30, 2015	<u>\$ 20,415,004</u>	<u>\$ 5,672,155</u>	<u>\$ 26,087,159</u>

NOTE 17 - NET POSITION RESTATEMENT

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

	Amount
July 1, 2014 Net Position as Previously Reported	\$ 241,472,751
Restatement:	
Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.	(18,956,827)
July 1, 2014 Net Position as Restated	<u><u>\$ 222,515,924</u></u>



REQUIRED SUPPLEMENTARY INFORMATION

**North Carolina Central University
 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>
(1) Proportionate Share Percentage of Collective Net Pension Liability	0.391%	0.394%
(2) Proportionate Share of TSERS Collective Net Pension Liability	\$ 4,589,911	\$ 23,919,815
(3) Covered-Employee Payroll	\$ 54,290,369	\$ 55,276,382
(4) Net Pension Liability as a Percentage of Covered-Employee Payroll	8.45%	43.27%
(5) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

**North Carolina Central University
 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>
(1) Contractually Required Contribution	\$ 4,465,497	\$ 4,717,833	\$ 4,604,523	\$ 4,155,823	\$ 2,762,230
(2) Contributions in Relation to the Contractually Determined Contribution	<u>4,465,497</u>	<u>4,717,833</u>	<u>4,604,523</u>	<u>4,155,823</u>	<u>2,762,230</u>
(3) Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
(4) Covered-Employee Payroll	\$ 48,803,246	\$ 54,290,369	\$ 55,276,382	\$ 55,857,838	\$ 56,029,005
(5) 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>
(1) Contractually Required Contribution	\$ 2,335,363	\$ 2,075,446	\$ 1,867,940	\$ 1,386,335	\$ 1,060,207
(2) Contributions in Relation to the Contractually Determined Contribution	<u>2,335,363</u>	<u>2,075,446</u>	<u>1,867,940</u>	<u>1,386,335</u>	<u>1,060,207</u>
(3) Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
(4) Covered-Employee Payroll	\$ 65,416,340	\$ 61,769,224	\$ 61,243,936	\$ 52,117,847	\$ 45,307,956
(5) Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

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

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

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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**

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina Central University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 17, 2015. Our report includes a reference to other auditors who audited the financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 17, 2015

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