



STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

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Beth A. Wood, CPA
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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Agricultural and Technical State University

We have completed a financial statement audit of North Carolina Agricultural and Technical State University for the year ended June 30, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

We have audited the accompanying financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The North Carolina A&T University Foundation, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for The North Carolina A&T University Foundation, Inc., are based on the report of the other auditors.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The North Carolina A&T University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Agricultural and Technical State University and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not 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 the audit of the basic financial statements. However, 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.



Beth A. Wood, CPA
State Auditor

November 14, 2012

NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

North Carolina Agricultural and Technical State University provides the following Management's Discussion and Analysis to provide assistance in understanding the financial statements for the fiscal year ended June 30, 2012. Comparative data for the year ended June 30, 2011 is also included. All information provided has been prepared by University staff for the purpose of identifying significant transactions, trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the related financial statements and notes to the financial statements.

The Financial Statements

The financial statements for North Carolina Agricultural and Technical State University include:

- the Statement of Net Assets
- the Statement of Revenues, Expenses, and Changes in Net Assets
- the Statement of Cash Flows.

These statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles and reflect an economic resource measurement focus and the accrual basis of accounting. Management's discussion and analysis will concentrate on the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets using condensed versions for the purposes of this discussion. Complete (full length) versions of each of the financial statements are presented as exhibits immediately following management's discussion and analysis.

Statement of Net Assets

The Statement of Net Assets summarizes and provides insight into the financial position of the University at June 30, 2012. It presents the financial position as defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as nonexpendable or expendable. Endowments and loan funds comprise the nonexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 51,057,124.57	\$ 59,848,887.69	\$ (8,791,763.12)	-14.69%
Noncurrent Capital Assets, Net of Accumulated Depreciation	325,316,403.41	323,334,801.67	1,981,601.74	0.61%
Other Noncurrent Assets	<u>32,085,655.00</u>	<u>28,183,158.88</u>	<u>3,902,496.12</u>	13.85%
Total Assets	<u>408,459,182.98</u>	<u>411,366,848.24</u>	<u>(2,907,665.26)</u>	-0.71%
Liabilities				
Current Liabilities	11,290,438.37	16,867,825.04	(5,577,386.67)	-33.07%
Noncurrent Liabilities	<u>23,178,787.54</u>	<u>23,402,425.73</u>	<u>(223,638.19)</u>	-0.96%
Total Liabilities	<u>34,469,225.91</u>	<u>40,270,250.77</u>	<u>(5,801,024.86)</u>	-14.41%
Net Assets				
Invested in Capital Assets, net of Related Debt	310,894,259.52	310,050,817.66	843,441.86	0.27%
Restricted-Nonexpendable	24,951,895.40	22,182,993.69	2,768,901.71	12.48%
Restricted-Expendable	9,631,603.52	8,704,561.19	927,042.33	10.65%
Unrestricted	<u>28,512,198.63</u>	<u>30,158,224.93</u>	<u>(1,646,026.30)</u>	-5.46%
Total Net Assets	<u>\$ 373,989,957.07</u>	<u>\$ 371,096,597.47</u>	<u>\$ 2,893,359.60</u>	0.78%

The overall decrease in current assets by \$8,791,763.12 is attributable to several factors: current restricted cash decreased by \$2,588,031.98, due in large part to the timing of the drawdown of receipts for two large recurring federal grants; expenditures for capital improvements as well as facility maintenance decreased current cash by \$5,889,871.78; there was a decrease of \$479,689.57 in the cash allowed by the Office of State Budget and Management to be carried forward to the next fiscal year, and cash held by the Auxiliary housing system decreased by \$3,138,402.62, a result of additional expenditures primarily for security and maintenance. These decreases in cash were partially offset by an increase in receivables in the amount of \$3,972,769.77, a large portion of which was due from the timing of the drawdown for the two large federal grants.

The net increase in noncurrent assets of \$5,884,097.86 resulted from increases in capital assets and endowment investments. Assets capitalized during the year totaled \$13,612,041.26. Capitalized assets were decreased by depreciation expense of \$11,177,716.35 and disposals net of depreciation of \$452,723.17. Endowment investments were increased by \$3,887,423.85, the result of purchases of investments with cash provided by additional gifts of \$2,682,330.34 and market appreciation.

The decrease of \$5,577,386.67 in current liabilities resulted primarily from a decrease in accounts payable of \$4,074,653.14, due to a decrease of \$2,109,539.02 in accounts payable for capital improvements and \$1,500,000.00 in litigation liabilities, as cases have been settled. Also the State grant for Gateway University Research Park was closed out during the year, further reducing current liabilities by \$2,353,814.05. There was an offsetting increase in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

unearned revenue of \$1,148,577.02 which was primarily attributable to deferred federal contracts and grants revenue.

Noncurrent liabilities remained fairly constant at \$23,178,787.54, with a decrease from the prior year of \$223,638.19. However, the University participated in the University of North Carolina System Pool Revenue Bonds, Series 2011C, for a total amount of \$3,625,000.00. The proceeds were used to pay off the \$3,130,000 balance of the bond anticipation note issued in 2011 and to refund Series 1998B bonds of \$255,000 and Series 2000 bonds of \$180,000.

Net Assets increased by \$2,893,359.60 with changes in restricted nonexpendable assets making up the majority of that increase. The increase in nonexpendable assets is made up primarily of endowment gifts for scholarships and professorships in the amount of 2,682,330.34. The change in Investment in Plant of \$843,441.86 resulted from the net increase of \$1,981,602.00 capital assets, offset by an increase in debt of \$1,138,159.88. These increases were offset by a decrease of \$1,646,026.30 in unrestricted net assets, caused primarily by increases in housing system expenditures.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues (expenses), and other revenues, expenses, gains or losses. Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2012	2011	Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 45,034,536.54	\$ 38,377,231.65	\$ 6,657,304.89	17.35%
Grants and Contracts	24,394,230.70	25,359,743.58	(965,512.88)	-3.81%
Federal Appropriations	7,184,766.94	8,015,251.03	(830,484.09)	-10.36%
Sales and Services	23,276,360.74	22,275,516.01	1,000,844.73	4.49%
Other Operating Revenues	1,662,244.14	1,228,323.95	433,920.19	35.33%
Total Operating Revenues	101,552,139.06	95,256,066.22	6,296,072.84	6.61%
Operating Expenses				
Salaries and Benefits	156,312,066.01	157,995,935.37	(1,683,869.36)	-1.07%
Supplies and Materials	19,154,909.78	18,723,478.94	431,430.84	2.30%
Services	42,379,508.71	42,619,059.18	(239,550.47)	-0.56%
Scholarships and Fellowships	20,242,096.16	23,306,140.00	(3,064,043.84)	-13.15%
Utilities	5,249,842.22	6,068,721.39	(818,879.17)	-13.49%
Depreciation	11,177,716.35	10,771,026.63	406,689.72	3.78%
Total Operating Expenses	254,516,139.23	259,484,361.51	(4,968,222.28)	-1.91%
Operating Loss	(152,964,000.17)	(164,228,295.29)	11,264,295.12	-6.86%
Nonoperating Revenues (Expenses)				
State Appropriations	94,181,745.96	100,035,260.62	(5,853,514.66)	-5.85%
Noncapital Grants and Gifts - Financial Aid	36,425,019.27	43,541,001.56	(7,115,982.29)	-16.34%
Noncapital Grants and Gifts	37,124,730.48	44,534,558.04	(7,409,827.56)	-16.64%
Interest and Fees on Debt	(716,046.79)	(776,126.32)	(60,079.53)	-7.74%
Grant to Gateway University Research Park	(18,465,527.16)	(29,980,249.52)	(11,514,722.36)	-38.41%
Other Nonoperating Expenses	(452,723.17)	(323,791.25)	128,931.92	39.82%
Other Nonoperating Revenues	1,275,540.08	3,325,542.05	(2,050,001.97)	-61.64%
Net Nonoperating Revenues (Expenses)	149,372,738.67	160,356,195.18	(33,875,196.45)	-21.12%
Loss Before Other Revenues (Expenses)	(3,591,261.50)	(3,872,100.11)	(280,838.61)	-7.25%
Other Revenues (Expenses)				
Capital Appropriations and Grants	2,758,702.27	13,119,019.22	(10,360,316.95)	-78.97%
Capital Gifts	1,043,588.49		1,043,588.49	
Additions to Permanent Endowments	2,682,330.34	3,055,763.67	(373,433.33)	-12.22%
Total Other Revenues (Expenses)	6,484,621.10	16,174,782.89	(9,690,161.79)	-59.91%
Total Increase in Net Asset	2,893,359.60	12,302,682.78	(9,971,000.40)	-81.05%
Net Assets - Beginning of the Year	371,096,597.47	358,793,914.69	12,302,682.78	3.43%
Net Assets - End of the year	\$ 373,989,957.07	\$ 371,096,597.47	\$ 2,893,359.60	0.78%

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an overall increase in net assets at year-end of \$2,893,359.60. Highlights of the significant changes are as follows:

- Operating revenues increased in total by \$6,296,072.84. Tuition and Fees increased by \$6,657,304.89 and Sales and Services increased by \$1,000,844.73. Both increased due to higher enrollment and a general increase in fees associated with the cost of attending college. The decreases in contract and grant revenue of \$965,512.88 as well as the decrease in federal appropriations of \$830,484.09 were the result of reductions in federal funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Operating expenditures decreased by \$4,968,222.28 in large part to decreases in salaries and benefits, scholarships and fellowships and utility costs. Salaries and Benefits decreased by \$1,683,869.36 due to reductions in the workforce. Scholarships and Fellowships decreased by \$3,064,043.84 largely due to cuts in educational grants received from both federal and state governments. Also, utility costs decreased by \$818,879.17 due to the continued implementation of energy efficient practices and a relatively mild winter.
- The University experienced a significant decrease in net nonoperating revenue of \$10,983,456.51. The State decreased appropriations to the University by \$5,853,514.66. The decrease in noncapital contracts and grants for financial aid of \$7,115,982.29 was composed primarily of decrease in State and federal financial aid grants including Pell grants. Noncapital grants and gifts decreased by \$7,409,827.56 due primarily to a decrease of \$9,160,908.31 in the State grant for the Joint School of Nanoscience and Nanoengineering facility. The decrease was offset by increases in federal funding for Title III grants. In addition, amounts paid to Gateway University Research Park, Inc. for the construction of the Joint School of Nanoscience and Nanoengineering facility decreased by \$11,514,722.36 due to the completion of the facility.
- The decrease in other revenues of \$9,690,161.79 was due primarily to a reduction in State grants received for repairs and renovation of campus facilities.
- The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 61.42% of operating expenses, followed by services at 16.65%, scholarships at 7.95%, supplies and materials at 7.53%, depreciation at 4.39%, and utility costs at 2.06%.

Capital Assets and Debt Administration

The University completed construction of a new Press Box facility for the Aggie Stadium complex at a cost of \$4,778,381.40. A bond issue of \$3,625,000 provided partial funding for the project. Other projects underway during the year included design phases for the Student Union renovation and a new student health facility.

At June 30, 2012, outstanding commitments on construction contracts totaled \$996,876.70. The grant to build the Joint School of Nanoscience and Nanoengineering classroom and laboratory facility as a part of the Gateway University Research Park was completed during the fiscal year.

Long-term revenue bond debt totaled \$14,405,000.00 at June 30, 2012, an increase of \$2,315,000.00. On December 1, 2011, the University issued \$3,625,000.00 of University of North Carolina System Pool Revenue Bonds, Series 2011C. Proceeds were used to retire the bond anticipation loan of \$3,250,000.00 which had a balance of \$3,130,000.00 and for a

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

current refunding of \$255,000.00 and \$180,000.00 of outstanding University of North Carolina Pool Revenue Bonds, Series 1998B and Series 2000, respectively.

Economic Forecast

State support in fiscal year 2012 decreased by \$5,853,514.66 (5.85%) and current national and statewide economic events continue to adversely impact State revenues. However, University management believes that enrollment growth, increased research activity, and fundraising efforts will help provide the resources necessary to maintain and enhance academic programs and campus life experience.

The University will continue to look for financial resources to supplement State appropriations and help maintain the level of services required for academic support functions, financial aid needs, and research activities. The University continues to cultivate support through community and national partnerships as well as alumni relationships.

As University management confronts today's uncertain economic factors, prudent use of resources, cost-containment efforts, and development of other sources of revenues will strengthen the institution and will ensure that it is well positioned to take advantage of the next upturn in the business cycle.

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 26,769,954.93
Restricted Cash and Cash Equivalents	10,273,360.15
Restricted Short-Term Investments	90,566.00
Receivables, Net (Note 4)	11,916,832.25
Due from University Component Units	19,569.00
Inventories	1,772,064.10
Notes Receivable (Note 4)	214,778.14
	<hr/>
Total Current Assets	51,057,124.57
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	4,004,780.65
Restricted Due from Primary Government	6,033.69
Endowment Investments	27,252,437.11
Restricted Investments	1,522.75
Notes Receivable, Net (Note 4)	820,880.80
Capital Assets - Nondepreciable (Note 5)	13,957,082.42
Capital Assets - Depreciable, Net (Note 5)	311,359,320.99
	<hr/>
Total Noncurrent Assets	357,402,058.41
	<hr/>
Total Assets	408,459,182.98

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	4,981,139.98
Due to Primary Government	60,083.05
Unearned Revenue	4,450,302.52
Interest Payable	150,678.13
Long-Term Liabilities - Current Portion (Note 7)	1,648,234.69
	<hr/>
Total Current Liabilities	11,290,438.37
Noncurrent Liabilities:	
Funds Held for Others	141,042.62
U. S. Government Grants Refundable	1,063,911.92
Long-Term Liabilities (Note 7)	21,973,833.00
	<hr/>
Total Noncurrent Liabilities	23,178,787.54
	<hr/>
Total Liabilities	34,469,225.91

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	310,894,259.52
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	13,147,401.76
Endowed Professorships	11,227,650.93
Departmental Uses	332,634.00
Loans	244,208.71
Expendable:	
Scholarships and Fellowships	2,789,417.43
Research	87,566.29
Endowed Professorships	1,849,528.68
Departmental Uses	4,048,024.65
Capital Projects	857,066.47
Unrestricted	<u>28,512,198.63</u>
Total Net Assets	<u><u>\$ 373,989,957.07</u></u>

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

North Carolina Agricultural and Technical State University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 45,034,536.54
Federal Appropriations	7,184,766.94
Federal Grants and Contracts	22,424,584.83
State and Local Grants and Contracts	1,268,882.05
Nongovernmental Grants and Contracts	700,763.82
Sales and Services, Net (Note 9)	23,276,360.74
Interest Earnings on Loans	4,168.28
Other Operating Revenues	<u>1,658,075.86</u>
Total Operating Revenues	<u>101,552,139.06</u>

EXPENSES

Operating Expenses:	
Salaries and Benefits	156,312,066.01
Supplies and Materials	19,154,909.78
Services	42,379,508.71
Scholarships and Fellowships	20,242,096.16
Utilities	5,249,842.22
Depreciation	<u>11,177,716.35</u>
Total Operating Expenses	<u>254,516,139.23</u>
Operating Loss	<u>(152,964,000.17)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	94,181,745.96
Noncapital Grants - Student Financial Aid	36,425,019.27
Other Noncapital Grants	35,991,976.08
Noncapital Gifts	1,132,754.40
Investment Income	1,275,540.08
Interest and Fees on Debt	(716,046.79)
Grant to Gateway University Research Park	(18,465,527.16)
Other Nonoperating Expenses	<u>(452,723.17)</u>
Net Nonoperating Revenues	<u>149,372,738.67</u>
Income Before Other Revenues	(3,591,261.50)
Capital Grants	2,758,702.27
Capital Gifts	1,043,588.49
Additions to Endowments	<u>2,682,330.34</u>
Increase in Net Assets	2,893,359.60

NET ASSETS

Net Assets - July 1, 2011	<u>371,096,597.47</u>
Net Assets - June 30, 2012	<u>\$ 373,989,957.07</u>

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 97,190,671.38
Payments to Employees and Fringe Benefits	(156,195,675.38)
Payments to Vendors and Suppliers	(68,536,428.14)
Payments for Scholarships and Fellowships	(20,222,863.70)
Loans Issued	(170,350.00)
Collection of Loans	225,630.13
Interest Earned on Loans	4,168.28
Other Receipts	1,648,896.76
	<hr/>
Net Cash Used by Operating Activities	(146,055,950.67)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	94,181,745.96
Noncapital Grants - Student Financial Aid	36,481,847.48
Noncapital Grants	35,843,424.68
Noncapital Gifts	1,002,432.41
Additions to Endowments	2,682,330.34
William D. Ford Direct Lending Receipts	74,129,800.00
William D. Ford Direct Lending Disbursements	(74,129,800.00)
Related Activity Agency Receipts	30,757.70
Related Activity Agency Disbursements	(17,267.40)
Grant to Gateway University Research Park, Inc.	(20,819,341.21)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	149,385,929.96

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	3,625,000.00
Capital Grants	2,801,905.08
Acquisition and Construction of Capital Assets	(14,629,187.67)
Principal Paid on Capital Debt	(4,560,000.00)
Interest and Fees Paid on Capital Debt	(654,026.14)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(13,416,308.73)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	84,466.30
Investment Income	740,455.53
Purchase of Investments and Related Fees	(3,346,940.02)
	<hr/>
Net Cash Used by Investing Activities	(2,522,018.19)

Net Decrease in Cash and Cash Equivalents	(12,608,347.63)
Cash and Cash Equivalents - July 1, 2011	53,656,443.36
	<hr/>
Cash and Cash Equivalents - June 30, 2012	\$ 41,048,095.73

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3

Page 2 of 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (152,964,000.17)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	11,177,716.35
Allowances and Write-Offs	(69,594.05)
Changes in Assets and Liabilities:	
Receivables (Net)	(3,836,992.53)
Due from University Component Units	(8,100.50)
Inventories	59,019.54
Notes Receivable (Net)	55,280.13
Accounts Payable and Accrued Liabilities	(2,014,526.24)
Due to Primary Government	(16,823.11)
U.S. Government Grants Refundable	(74,023.55)
Unearned Revenue	1,206,284.44
Compensated Absences	429,809.02
	<hr/>
Net Cash Provided Used by Operating Activities	<u>\$ (146,055,950.67)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 26,769,954.93
Restricted Cash and Cash Equivalents	10,273,360.15
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	4,004,780.65
	<hr/>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 41,048,095.73</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 1,178,088.49
Change in Fair Value of Investments	581,062.99
Reinvested Distributions	346,940.02

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

The North Carolina A&T University Foundation, Inc.
Statement of Financial Position
June 30, 2012

Exhibit B-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 1,270,574
Investments	6,158,417
Unconditional Promises to Give	63,161
Accounts Receivable-NCA&TSU	23,965
Other Current Assets	577,343
	<hr/>
Total Current Assets	8,093,460
Restricted Deposits:	
Bond Operating Reserve Fund	500,000
Bond Interest Fund	2,896
Bond Surplus Fund	1,533,361
Bond Debt Service Fund	3,126,201
Bond QEA Fund	35,000
	<hr/>
Total Restricted Deposits	5,197,458
Endowment Investments	4,059,057
Property, Furniture and Equipment, at Cost, Net	32,904,909
Long-Term Unconditional Promises to Give	3,465
Other Assets	3,356,384
	<hr/>
Total Assets	<u>\$ 53,614,733</u>

LIABILITIES

Current Liabilities:	
Current Maturities of Bonds Payable	\$ 1,255,000
Accounts Payable	169,532
Other Liabilities	366,204
	<hr/>
Total Current Liabilities	1,790,736
Long-Term Liabilities:	
Bonds Payable Less Current Maturities	40,800,000
	<hr/>
Total Liabilities	42,590,736

NET ASSETS

Unrestricted	
Operating	2,248,027
Fixed Assets	98,023
	<hr/>
Total Unrestricted	2,346,050
Temporarily Restricted	4,607,211
Permanently Restricted	4,070,736
	<hr/>
Total Net Assets	11,023,997
	<hr/>
Total Liabilities and Net Assets	<u>\$ 53,614,733</u>

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

The North Carolina A&T University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenues and Reclassifications				
Contributions:				
Foundations & Corporations	\$ 5,000	\$ 944,187	\$ 6,472	\$ 955,659
Board of Directors	3,200	1,600	2,630	7,430
Individuals/Friends	54,085	1,221,767	44,639	1,320,491
Interest and Dividends	151,833	79,998	70,307	302,138
Administrative Fee	82,946			82,946
Miscellaneous		239,272		239,272
Unrealized Loss from Investments	(70,758)	(223,110)		(293,868)
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	1,981,275	(1,981,275)		0
Rental Income	7,374,181			7,374,181
Management Fees	317,721			317,721
Fundraising	157,591			157,591
Total Public Support, Revenues and Reclassifications	<u>10,057,074</u>	<u>282,439</u>	<u>124,048</u>	<u>10,463,561</u>
Scholarships and Expenses				
Scholarships:				
Scholarships-Unrestricted	150,000			150,000
Scholarships-Departmental	661,621			661,621
Total Scholarships	<u>811,621</u>			<u>811,621</u>
Expenses				
Academic Departmental Programs	1,319,654			1,319,654
Administration	912,214			912,214
Student Housing	6,139,193			6,139,193
Transfer to NCA&TSU and Promises to Give Writeoffs		66,794	348,900	415,694
Total Expenses	<u>9,182,682</u>	<u>66,794</u>	<u>348,900</u>	<u>9,598,376</u>
Changes in Net Assets	874,392	215,645	(224,852)	865,185
Net Assets as of Beginning of Year	<u>1,471,658</u>	<u>4,391,566</u>	<u>4,295,588</u>	<u>10,158,812</u>
Net Assets as of End of Year	<u>\$ 2,346,050</u>	<u>\$ 4,607,211</u>	<u>\$ 4,070,736</u>	<u>\$ 11,023,997</u>

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

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NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

The accompanying financial statements present all funds belonging to the University and its component unit. 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 unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit - The North Carolina Agricultural and Technical University Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the University. The Foundation is a tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 16 elected members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2012, the Foundation distributed \$1,259,194.95 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from 200 North Benbow Road, Greensboro, NC 27411. The Mailing address is P.O. Box 20366, Greensboro, NC 27420.

- 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 Governmental Accounting Standards Board (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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply FASB pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

D. Cash and Cash Equivalents - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.

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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using average cost of last invoice price, first-in, first-out, or in the case of agricultural supplies inventory, current market value. Merchandise for resale is valued at first-in, first-out method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

general infrastructure, 10 to 50 years for buildings, and 10 to 25 years for equipment.

The Heritage Center and Art Gallery collections are capitalized at cost or fair value at the date of donation. These 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, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable and compensated absences that will not be paid within the next fiscal year.

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

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

L. Net Assets - The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - 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 invested in capital assets, net of related debt.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include 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 Assets - Expendable - Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. 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 Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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 bookstore sales, student newspaper advertisements, and University One Card administration fees. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis including motor pool and utilities. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$40,980,575.45 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund 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 Short-Term Investment Fund) 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, 2012 was \$37,735.97. The carrying amount of the University's deposits not with the State Treasurer was \$29,784.31 and the bank balance was \$28,979.90. 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, 2012, the University's bank balance was not exposed to custodial credit risk as each depositor is now insured for up to \$250,000.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the United States; obligations of certain federal agencies; repurchase agreements; obligations of the state of North Carolina; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

Investments of the University's component unit, The North Carolina A&T University 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.

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 basis of the number of units purchased multiplied by the current unit market value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	6 to 10
Debt Securities			
Debt Mutual Funds	\$ 2,538,588.18	\$ 0.00	\$ 2,538,588.18
Money Market Mutual Funds	38,116.28	38,116.28	
Total Debt Securities	2,576,704.46	\$ 38,116.28	\$ 2,538,588.18
Other Securities			
UNC Investment Fund	17,392,968.15		
Equity Mutual Funds	7,271,074.50		
Investments in Real Estate	11,690.00		
Total Long-Term Investment Pool	\$ 27,252,437.11		

At June 30, 2012, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	Unrated
Debt Mutual Funds	\$ 2,538,588.18	\$ 2,538,588.18	\$ 0.00
Money Market Mutual Funds	38,116.28		38,116.28

Rating Agency: Morningstar

At June 30, 2012, investments in the Long-Term Investment Pool were not exposed to custodial credit risk.

UNC Investment Fund, LLC - At June 30, 2012, the University's investments include \$17,392,968.15 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 and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - At year end, the University held domestic stock with a fair value of \$1,522.75 and an insurance policy with a cash surrender value of \$90,566.00.

Total Investments - The following table presents the fair value of the total investments at June 30, 2012:

Investment Type	<u>Fair Value</u>
Debt Securities	
Debt Mutual Funds	\$ 2,538,588.18
Money Market Mutual Funds	38,116.28
Other Securities	
UNC Investment Fund	17,392,968.15
Equity Mutual Funds	7,271,074.50
Investments in Real Estate	11,690.00
Domestic Stocks	1,522.75
Other- Cash Surrender Value Life Insurance	<u>90,566.00</u>
Total Investments	<u>\$ 27,344,525.86</u>

Component Unit - Investments of the University's discretely presented component unit, The North Carolina A&T University 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 Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The Foundation's investments include mutual funds administered by Charles Schwab in the amount of \$10,204,764 and stock in the amount of \$12,710. The total amount of investments for the North Carolina A&T University Foundation, Inc. is \$10,217,474.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2012, is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on Hand	\$	37,735.97
Amount of Deposits with Private Financial Institutions		29,784.31
Investments with the State Treasurer		40,980,575.45
Investments in the UNC Investment Fund		17,392,968.15
Long-Term Investment Pool		9,859,468.96
Non-Pooled Investments		92,088.75
Total Deposits and Investments	\$	68,392,621.59
Deposits		
Current:		
Cash and Cash Equivalents	\$	26,769,954.93
Restricted Cash and Cash Equivalents		10,273,360.15
Noncurrent:		
Restricted Cash and Cash Equivalents		4,004,780.65
Total Deposits		41,048,095.73
Investments		
Current:		
Restricted Short-Term Investments		90,566.00
Noncurrent:		
Endowment Investments		27,252,437.11
Restricted Investments		1,522.75
Total Investments		27,344,525.86
Total Deposits and Investments	\$	68,392,621.59

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 based on an adopted spending policy which limits spending to not more than 5% of the endowment's average market value

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

at December 31st for the prior three years. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2012, net appreciation of \$3,333,459.11 was available to be spent, of which \$2,511,002.92 was classified in net assets as restricted expendable for scholarships, professorships, and departmental uses as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2012, the amount of investment losses reported against the nonexpendable endowment balances was \$101,886.82.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 880,709.59	\$ 460,877.03	\$ 419,832.56
Accounts	472,813.91	34,894.41	437,919.50
Intergovernmental	9,883,204.04		9,883,204.04
Pledges	72,543.44		72,543.44
Interest on Loans	158,007.65		158,007.65
Other	945,325.06		945,325.06
Total Current Receivables	<u>\$ 12,412,603.69</u>	<u>\$ 495,771.44</u>	<u>\$ 11,916,832.25</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 214,778.14</u>	<u>\$ 0.00</u>	<u>\$ 214,778.14</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,475,047.65</u>	<u>\$ 654,166.85</u>	<u>\$ 820,880.80</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 9,683,313.22	\$ 546,655.05	\$ 226,894.95	\$ 10,003,073.32
Art, Literature, and Artifacts	2,502,077.00		11,280.00	2,490,797.00
Construction in Progress	3,022,192.74	781,266.39	2,340,247.03	1,463,212.10
Total Capital Assets, Nondepreciable	15,207,582.96	1,327,921.44	2,578,421.98	13,957,082.42
Capital Assets, Depreciable:				
Buildings	344,467,546.09	11,464,035.34		355,931,581.43
Machinery and Equipment	55,512,614.55	3,313,090.32	1,488,094.96	57,337,609.91
General Infrastructure	18,972,947.25	74,136.14		19,047,083.39
Total Capital Assets, Depreciable	418,953,107.89	14,851,261.80	1,488,094.96	432,316,274.73
Less Accumulated Depreciation for:				
Buildings	81,787,458.42	7,233,819.12		89,021,277.54
Machinery and Equipment	24,212,629.23	3,334,910.60	1,046,651.79	26,500,888.04
General Infrastructure	4,825,801.53	608,986.63		5,434,788.16
Total Accumulated Depreciation	110,825,889.18	11,177,716.35	1,046,651.79	120,956,953.74
Total Capital Assets, Depreciable, Net	308,127,218.71	3,673,545.45	441,443.17	311,359,320.99
Capital Assets, Net	\$ 323,334,801.67	\$ 5,001,466.89	\$ 3,019,865.15	\$ 325,316,403.41

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 3,882,935.27
Accrued Payroll	789,858.80
Contract Retainage	215,473.45
Intergovernmental Payables	92,872.46
Total Accounts Payable and Accrued Liabilities	\$ 4,981,139.98

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 12,090,000.00	\$ 3,625,000.00	\$ 1,310,000.00	\$ 14,405,000.00	\$ 1,030,000.00
Deduct Discount	(1,234.26)		(822.79)	(411.47)	
Deduct Deferred Charge on Refunding	(319,792.64)		(48,647.57)	(271,145.07)	
Add Premium	292,045.45	17,720.40	21,065.42	288,700.43	
Total Revenue Bonds Payable	12,061,018.55	3,642,720.40	1,281,595.06	14,422,143.89	1,030,000.00
Notes Payable	3,250,000.00		3,250,000.00	0.00	
Compensated Absences	8,770,114.78	6,334,923.83	5,905,114.81	9,199,923.80	618,234.69
Total Long-Term Liabilities	\$ 24,081,133.33	\$ 9,977,644.23	\$ 10,436,709.87	\$ 23,622,067.69	\$ 1,648,234.69

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, 2012	Principal Outstanding June 30, 2012
Revenue Bonds Payable						
The University of North Carolina Pool Revenue Bonds						
Parking System	(A)	5.25	10/01/2013	\$ 1,465,000.00	\$ 1,465,000.00	\$ 0.00
Stadium System	(B)	5.75	10/01/2012	1,555,000.00	1,555,000.00	0.00
Parking System	(C)	4.00-5.00	10/01/2033	5,965,000.00	495,000.00	5,470,000.00
Dining System	(C)	4.00-5.00	10/01/2020	7,525,000.00	2,215,000.00	5,310,000.00
Stadium System	(D)	4.00-5.01	10/01/2031	3,365,000.00	0.00	3,365,000.00
Parking System	(D)	2.00-4.50	10/01/2013	260,000.00	0.00	260,000.00
Total UNC Pool Revenue Bonds				20,135,000.00	5,730,000.00	14,405,000.00
Less: Unamortized Loss on Refunding						(271,145.07)
Less: Unamortized Discount						(411.47)
Plus: Unamortized Premium						288,700.43
Total Revenue Bonds Payable and Certificates of Participation						\$ 14,422,143.89

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B

(B) The University of North Carolina System Pool Revenue Bonds, Series 2000

(C) The University of North Carolina System Pool Revenue Bonds, Series 2006B

(D) The University of North Carolina System Pool Revenue Bonds, Series 2011C

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements Revenue Bonds Payable	
2013	\$ 1,030,000.00	\$ 586,362.52
2014	895,000.00	554,612.52
2015	780,000.00	524,512.52
2016	815,000.00	494,450.02
2017	840,000.00	462,937.52
2018-2022	4,080,000.00	1,776,228.21
2023-2027	1,865,000.00	1,197,159.38
2028-2032	3,110,000.00	626,843.75
2033-2037	990,000.00	49,100.00
Total Requirements	\$ 14,405,000.00	\$ 6,272,206.44

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

On December 1, 2011, the University issued \$440,000 in University of North Carolina System Pool Revenue Bonds, Series 2011C, refunding bonds with an average interest rate of 2%. The bonds were issued for a current refunding of \$255,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B, with an average interest rate of 5.25% and \$180,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 2000, with an average interest rate of 5.75%. The refunding was undertaken to reduce total debt service payments by \$15,775.83 over the next two years and resulted in an economic gain of \$13,821.14.

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, 2012, the outstanding balance of prior year defeased bonds was \$1,000,000.00.

- E. Component Unit** - At June 30, 2012 The North Carolina A&T University Foundation, Inc. had \$42,055,000 of outstanding bonds payable. These bonds, Series 2004A and Series 2004B, were issued on August 10, 2004, for \$29,250,000 and \$21,000,000 respectively. The 2004A Bonds were issued primarily to refund the Foundation's outstanding 2001 Bonds. The 2004B bonds were issued primarily to finance the construction, equipping and installation of student housing, a fitness facility and a conference and special events facility.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The net proceeds of \$48,637,339 (net of payment of interest and principal outstanding of \$373,739 on the 2001 Bonds, and payment of \$3,262,904 in underwriting fees, insurance, and other issuance costs) were used to purchase federal securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 Bonds. As a result, the 2001 Bonds are considered to be defeased and the liability for those bonds has been removed from the Foundation's long-term debt.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$50,673. This difference, net of accumulated amortization of \$1,321, is reported in the Foundation's financial statements as a deduction from bonds payable. Such amount is charged to operations using the straight-line method over the life of the bonds through the year 2035. Bond issuance costs and bond discount of \$3,914,439 associated with the advance refunding are charged to operations using the straight-line method through the year 2035. Accumulated amortization of these bonds issuance costs was \$1,021,926 at June 30, 2012.

The Series 2004A and 2004B Bonds consisted of \$50,250,000 of serial bonds issued at interest rates ranging from 3% to 5%, maturing in progressively larger annual amounts ranging from \$600,000 on June 1, 2005 to \$1,170,000 on June 1, 2035. Semi-annual interest payments on the Series 2004A and 2004B Bonds are due December 1 and June 1, and annual principal payments are due June 1.

A summary of the maturities of the bonds payable at June 30, 2012 is detailed as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2013	\$ 1,255,000.00
2014	1,310,000.00
2015	1,360,000.00
2016	1,415,000.00
2017	1,475,000.00
Thereafter	<u>35,240,000.00</u>
	<u>\$ 42,055,000.00</u>

Interest expense at June 30, 2012 amounted to \$1,811,237.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 175,464.98
2014	82,738.32
2015	25,769.52
Total Minimum Lease Payments	\$ 283,972.82

Rental expense for all operating leases during the year was \$674,203.44.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Change in Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 68,505,058.13	\$ 0.00	\$ 23,199,066.63	\$ 271,454.96	\$ 45,034,536.54
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 9,665,277.61	\$ 0.00	\$ 3,088,071.05	\$ 43,559.53	\$ 6,533,647.03
Dining	11,490,103.25		3,657,371.45	51,643.89	7,781,087.91
Student Union Services	23,093.08				23,093.08
Health, Physical Education, and Recreation Services	124,393.82				124,393.82
Bookstore	5,242,014.01	74,725.13		0.03	5,167,288.85
Parking	1,310,467.27			(3,161.99)	1,313,629.26
Athletic	1,904,820.88				1,904,820.88
Other	267,247.63				267,247.63
Sales and Services of Education and Related Activities	2,207,542.66	2,046,390.38			161,152.28
Total Sales and Services	\$ 32,234,960.21	\$ 2,121,115.51	\$ 6,745,442.50	\$ 92,041.46	\$ 23,276,360.74

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 10 - 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	\$ 71,051,269.52	\$ 2,263,860.80	\$ 1,912,761.42	\$ 325,905.73	\$ 672.97	\$ 0.00	\$ 75,554,470.44
Research	17,864,197.91	2,311,753.66	7,406,819.62	1,585,667.11			29,168,438.30
Public Service	5,292,373.53	474,530.18	1,569,895.73	229,200.08			7,565,999.52
Academic Support	15,377,313.69	5,040,809.37	4,231,752.80	725,517.20			25,375,393.06
Student Services	5,595,717.41	281,835.96	1,087,936.87	31,664.26			6,997,154.50
Institutional Support	16,912,446.89	341,164.43	4,543,254.48	638,280.79	3,309.74		22,438,456.33
Operations and Maintenance of Plant	9,219,647.15	1,124,714.87	3,539,357.81	0.00	3,699,584.79		17,583,304.62
Student Financial Aid	272,001.06	5,881.22	62,548.26	13,856,099.00			14,196,529.54
Auxiliary Enterprises	14,727,098.85	7,310,359.29	18,025,181.72	2,849,761.99	1,546,274.72		44,458,676.57
Depreciation						11,177,716.35	11,177,716.35
Total Operating Expenses	\$ 156,312,066.01	\$ 19,154,909.78	\$ 42,379,508.71	\$ 20,242,096.16	\$ 5,249,842.22	\$ 11,177,716.35	\$ 254,516,139.23

NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (Plan) is a cost-sharing multiple-employer defined benefit pension plan established by the state to provide pension benefits for employees of the state, its component units, and local boards of education. The Plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$123,817,346.32, of which \$67,047,208.84 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$4,988,312.34 and \$4,022,832.53, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$4,988,312.34, \$3,566,826.96, and \$2,523,015.42, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. 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, 2012, 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 \$123,817,346.32, of which \$38,136,960.03 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,608,568.07 and \$2,288,217.60, respectively.

The Federal Retirement System is a multiple-employer system. University extension employees participate in the Civil Service Retirement System (CSRS) a program for participants employed prior to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

January 1, 1987. Participants contributed 7% of their salary to CSRS and the University match was 7%. For the year ended June 30, 2012, covered payroll was \$370,934.57, and total employer and employee contributions were \$25,965.42 each.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code Section 457 Plan - The state of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$334,345.96 for the year ended June 30, 2012.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2012, were \$61,913.77. The voluntary contributions by employees amounted to \$651,753.30 for the year ended June 30, 2012.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

TIAA/CREF and Fidelity. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,095,611.84 for the year ended June 30, 2012.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the University contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$5,259,208.44, \$5,260,358.30, and \$4,748,108.32, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$546,957.68, \$558,242.11, and \$548,670.29, 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 13 - RISK MANAGEMENT

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Receipts-supported auxiliary units purchased extended or broad form coverage through the Fund. The University Bookstore purchased broad form coverage on contents only in the amount of \$2,425,000 while the Student Union and Cafeteria purchased extended coverage on buildings and contents in the amount of \$20,945,206 and \$25,692,426, respectively. Resident halls purchased broad form coverage on buildings and contents in amount of \$155,271,062. The Hazardous Material and Campus Recreation buildings purchased broad form coverage for building and contents in the amount of \$2,377,855 and \$7,418,021, respectively. All risk insurance in the amount of \$4,380,021 was purchased for certain equipment located in Paul Robeson Theater, the research center in Kannapolis, the Bryan Fitness and Wellness Center, and the motor sport program. Losses covered for each of these buildings is subject to a \$5,000 deductible per occurrence.

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

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

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

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTE 14 - 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 \$996,876.70 and on other purchases were \$8,978,433.23 at June 30, 2012.

B. Pending Litigation and Claims

The University is party to legal actions and a potential legal action with probable liabilities to the University totaling \$500,000.00. This amount is reflected in the Accounts Payable Accrual in the Financial Statements.

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

C. Other Contingent Receivables - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Pledges to Endowments	\$ 1,858,014.16

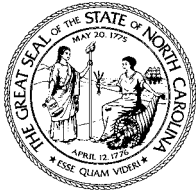
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - RELATED PARTIES

The University and the University of North Carolina at Greensboro have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization and discovery while encouraging and promoting regional economic development.

During the 2011 - 2012 fiscal year, the University made payments totaling \$18,465,527.16 to Gateway University Research Park, Inc., for the construction of a new research and classroom facility on the south campus to be known as the Joint School of Nanoscience and Nanoengineering.

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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 Agricultural and Technical State University
Greensboro, North Carolina

We have audited the financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 14, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of The North Carolina A&T University Foundation, Inc. as described in our report on the University's financial statements. The financial statements of The North Carolina A&T University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The University's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

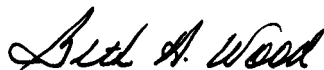
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

November 14, 2012

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647

This audit required 1176 audit hours at an approximate cost of \$84,672. The cost represents .021% of the University's total assets and .031% of total expenses subjected to audit.