
North Carolina Agricultural and Technical State University

2009 Financial Report



2009
Financial
Report



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Letter of Transmittal

January 27, 2010

To the Chancellor and
Board of Trustees of
North Carolina Agricultural
and Technical State University
Greensboro, North Carolina 27411

Ladies and Gentlemen:

I am pleased to transmit the Financial Report for the year ended June 30, 2009. This report was prepared by the Business and Finance staff from the financial records of North Carolina Agricultural and Technical State University and is subject to audit by state and federal auditors.

The 2009 Financial Report was prepared using the format promulgated by the Governmental Accounting Standards Board (GASB) in Statement Number 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The Financial Report for the University consists of Management's Discussion and Analysis, the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, and the Notes to the Financial Statements.

In addition, GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, requires that legally separate, tax-exempt organizations established for the sole purpose of providing a significant or material amount of financial support be considered a component unit. In compliance with Statement Number 39, the financial statements for the North Carolina A&T University Foundation, Inc., have been discretely presented as part of the University's Financial Report for the year ended June 30, 2009.

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Respectfully submitted,

A handwritten signature in black ink that reads "Robert Pompey, Jr." with a stylized flourish at the end.

Robert Pompey, Jr.
Vice Chancellor
for Business and Finance

The Board of Trustees and University Officers

The Board of Trustees at June 30, 2009

Franklin E. McCain, Chair	Charlotte, NC
Pamela McCorkle Buncum, Vice Chair	Atlanta, GA
Spence H. Broadhurst, Secretary	Greensboro, NC
D. Hayes Clement	Greensboro, NC
Karen J. Collins	Willowbrook, IL
Charles C. Cornelio	Greensboro, NC
Willie Deese	Whitehouse Station, NJ
Albert S. Lineberry, Jr.	Greensboro, NC
Velma R. Speight-Buford	Greensboro, NC
Joseph A. Williams	Greensboro, NC
Patricia Miller Zollar	New York, NY
Marcus R. Bass, President	
Student Government Association	

University Officers at June 30, 2009

General Administration:

Harold L. Martin, Sr.	Chancellor
Alton Thompson (Interim)	Provost and Vice Chancellor for Academic Affairs
Deborah J. Calloway	Special Assistant to the Chancellor
Marc J. Williams (Interim)	Special Assistant to the Chancellor for Legal Affairs
Mark Kiel	Vice Chancellor for Development and University Relations
Linda R. McAbee	Vice Chancellor for Human Resources
Robert Pompey, Jr.	Vice Chancellor for Business and Finance
Narayanaswamy Radhakrishnan	Vice Chancellor for Research and Economic Development
Vijay Verma	Vice Chancellor for Information Technology and Telecommunications
Sullivan Welborne	Vice Chancellor for Student Affairs

Academic Deans:

Ceola Ross Baber	School of Education
Patricia Chamings (Interim)	School of Nursing
William Craft (Interim)	School of Graduate Studies
Quiester Craig	School of Business and Economics
Joseph Graves, Jr.	University Studies
Doris Mitchell (Interim)	Library Services
Joseph Monroe	College of Engineering
Michael Plater	College of Arts and Sciences
Donald McDowell (Interim)	School of Agriculture and Environmental Sciences
Benjamin Uwakweh	School of Technology
James Ryan	Joint School of Nanoscience and Nanoengineering

Management's Discussion and Analysis

Introduction

North Carolina Agricultural and Technical State University (hereinafter referred to as the "University") provides the following Management's Discussion and Analysis as an overview of the financial activities for the fiscal year ended June 30, 2009. Comparative data for the year ended June 30, 2008 is also included. Information contained herein 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 Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. These statements were 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.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at June 30, 2009, defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent

Condensed Statement of Net Assets

	2009	Restated 2008	Change
Assets			
Current assets	\$ 61,323,875	64,355,566	(3,031,691)
Noncurrent capital assets, net of accumulated depreciation	308,576,250	295,504,981	13,071,269
Other noncurrent assets	31,736,284	53,392,664	(21,656,380)
Total Assets	401,636,409	413,253,211	(11,616,802)
Liabilities			
Current liabilities	15,060,534	14,224,078	836,456
Noncurrent liabilities	23,361,951	23,920,372	(558,421)
Total Liabilities	38,422,485	38,144,450	278,035
Net Assets			
Investment in capital assets, net of related debt	292,568,384	278,325,605	14,242,779
Restricted-nonexpendable	17,344,175	13,135,953	4,208,222
Restricted-expendable	18,440,903	43,581,096	(25,140,193)
Unrestricted	34,860,462	40,066,107	(5,205,645)
Total Net Assets	\$363,213,924	375,108,761	(11,894,837)



Management's Discussion and Analysis

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: investment in capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as unexpendable or expendable. Endowments and loan funds comprise the unexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

The University adjusted the estimated useful lives of capital assets in fiscal year 2009. The adjustment resulted in an increase in investment in capital assets of \$11,506,330 for recaptured depreciation. The 2008 net asset amounts in the Statement of Net Assets have been restated to reflect the error adjustment.

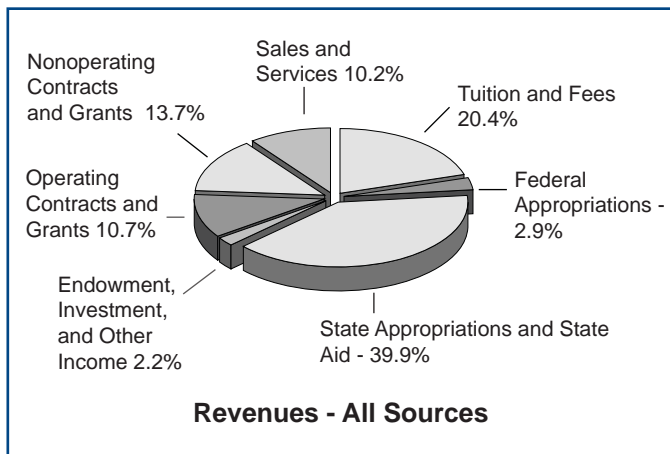
The decrease of \$3,031,691 in current assets is primarily due to a decrease in unrestricted cash and cash equivalents totaling \$3,615,037 and a decrease in inventory of \$296,858. The amount of cash from State appropriations the University held at June 30, 2009 decreased from 2008 by \$3,212,621, a direct result of the economic downturn in 2008-2009. The decrease in cash was offset by an increase in receivables of \$830,664.

The decrease of \$8,585,111 in noncurrent assets is comprised of large changes in the categories that make up that figure. Capital assets increased by \$13,071,269, primarily due to increases in construction in progress of \$16,004,697 for the renovation of laboratories and the biology building as well as for the construction of a new nanoengineering facility. Other capital additions, disposals, and depreciation expense netted against the increase in construction in progress. Other noncurrent assets decreased by \$21,656,380 because large construction projects funded through State bonds were nearing completion which decreased the receivable from the State by \$13,612,245. In addition, noncurrent restricted cash decreased by \$7,629,768 as the University spent cash that was on hand at June 30, 2008 for capital and maintenance projects during the 2009 fiscal year.

Net assets decreased during the year by \$11,894,837. Investment in capital assets increased by \$14,242,779, primarily as a result of the increase in construction in progress. Restricted net assets decreased by \$25,140,193. The decrease resulted from a reduction in assets on hand for capital and maintenance projects as well as a decrease in the market value of investments for the expendable portion of endowment funds. The increase of nonexpendable net assets resulted primarily from endowment gifts of \$4,205,937. Unrestricted net assets decreased by \$5,205,645, a result of utilizing other unrestricted resources to cover operating costs normally covered by State appropriations as well as the decrease in State appropriations on hand at June 30, 2009.



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. Intradepartmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded. Grants received for

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

	2009	Restated 2008	Change
Operating Revenues			
Student tuition and fees	\$ 43,868,907	46,965,544	(3,096,637)
Grants and contracts	23,009,300	20,313,593	2,695,707
Federal appropriations	6,346,818	5,648,169	698,649
Sales and services	22,013,985	22,962,559	(948,574)
Other operating revenues	1,290,479	1,853,036	(562,557)
Total Operating Revenues	96,529,489	97,742,901	(1,213,412)
Operating Expenses	229,076,140	226,205,041	2,871,099
Operating Loss	(132,546,651)	(128,462,140)	(4,084,511)
Nonoperating Revenues (Expenses)			
State appropriations	85,994,863	99,373,082	(13,378,219)
State aid - Federal recovery funds	3,322,095	—	3,322,095
Noncapital gifts and grants	29,541,598	26,859,613	2,681,985
Interest and fees on debt	(782,576)	(943,754)	161,178
Investment income (loss)	(1,083,649)	1,930,352	(3,014,001)
Other nonoperating expenses	(929,109)	(219,239)	(709,870)
Net Nonoperating Revenues (Expenses)	116,063,222	127,000,054	(10,936,832)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(16,483,429)	(1,462,086)	(15,021,343)
Other Revenues			
Capital appropriations and grants	491,351	13,878,706	(13,387,355)
Refund of prior years capital appropriations	(108,696)	—	(108,696)
Additions to permanent endowments	4,205,937	2,303,828	1,902,109
Total Other Revenues	4,588,592	16,182,534	(11,593,942)
Total Increase (Decrease) in Net Assets	(11,894,837)	14,720,448	(26,615,285)
Net Asset			
Beginning of the year	375,108,761	348,881,983	26,226,778
Restatement	—	11,506,330	(11,506,330)
End of the year	\$363,213,924	375,108,761	(11,894,837)

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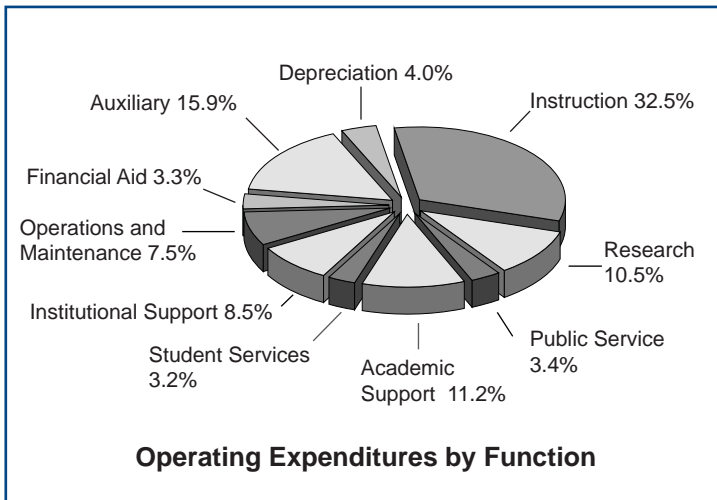
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scholarships and fellowships have been reclassified from operating revenue to nonoperating revenue beginning with the 2009 financial statements. In order to enhance comparability 2008 has been restated.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a decrease in the net assets and revenues at year end. Some of the highlights are as follows:

Operating revenues decreased by \$1,213,412. Enrollment declined slightly from 2008 to 2009, resulting in a decrease in tuition and fees as well as sales and services of \$4,045,211. The decrease

Management's Discussion and Analysis



in revenues impacted by enrollment was offset by an increase in grants, contracts, and Federal appropriations of \$3,394,356.

The University experienced a significant decrease in nonoperating revenue during the 2009 fiscal year, due primarily to a decrease in State appropriations of \$13,378,219 that represents a 13.46% change from the prior year. The decrease in State appropriations was mitigated somewhat by State aid of \$3,322,095 that represents the University's pro-rata share of Federal American

Recovery and Reinvestment Act funds received in June, 2009. In addition, the University experienced a net loss on investment return of \$1,083,649, a decrease of \$3,014,001 from the 2008 fiscal year. As in operating income, an increase in grants and gifts of \$2,681,936 offset the losses in other areas.

The decrease in other revenues of \$11,593,943 was largely due to a decrease in capital grants and gifts of \$13,387,355 offset by an increase in endowment gifts of \$1,902,108. Large construction projects that required significant amounts of grant funds in 2008, were completed in 2009, greatly decreasing the need for State and Federal capital grant monies.

The increase in operating costs of \$2,871,099 is attributed primarily to increases in payroll charges and expenditures for scholarships. Payroll expenditures increased by \$11,495,491, as a result of a 2.75% to 3% payroll raise granted by the State legislature and the funding of existing positions mainly through State appropriations. Services, as well as supplies decreased by \$10,163,861 as budgets were cut to meet the overall decrease in State appropriations.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 65.01% of operating expenses, followed by services at 15.76%, supplies and materials at 6.87%, scholarships at 6.04%, depreciation at 4.02%, and utility costs at 2.30%.

Capital Assets and Debt Administration



Rendering of the interior of the new general classroom facility to be completed in 2011.

The cost of construction projects continued to exert significant influence on the University's financial statements for 2009. Since the passage in November 2000 of a \$2.5 billion bond package for the improvement and expansion of facilities on the 16 campuses of the University of North Carolina system, the University has received over \$163,446,758 in State construction grants financed by the bond proceeds. All twenty-two of the University's bond-funded projects were under design, in the construction phase or completed at June 30, 2009. During 2009 the University completed the new School of Education building for \$19,007,388 as well as major renovation projects totaling \$11,467,322 for Barbee Hall

and the Corbett Intramural Center. In addition, projects totaling \$14,672,191 are scheduled for completion in fiscal year 2010.

Long-term debt totaled \$16,085,000 at June 30, 2009. The University reduced outstanding debt by principal payments of \$1,200,000 during the year.

Economic Forecast

Despite reductions in State appropriations support and a decline in student enrollment, management believes that the University is well positioned to maintain its strong financial condition and level of excellence in service to its students, the community, and its other constituents.

State appropriations comprised approximately 39% of the University's annual revenues during fiscal year 2009, down 2% from fiscal year 2008. While there is a direct connection between the University's ability to enhance its core academic programs and the level of State support provided, the University has taken appropriate steps to protect and maintain the integrity of its academic programs. This remains a priority for the University.

Current national economic events continue to adversely impact State revenues to the extent that an additional 2% decrease of the authorized budget for fiscal year 2010 is anticipated. However, University management believes that enrollment will begin a trend of slow but steady growth by the 2010 fiscal year.

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.

Statement of Net Assets

June 30, 2009

Assets

Current Assets

Cash and cash equivalents	\$ 35,772,430
Restricted cash and cash equivalents	13,417,720
Receivables, net (Note 4)	9,685,255
Due from state of North Carolina component units	60,000
Inventories	2,020,136
Notes receivable (Note 4)	368,334
Total Current Assets	<u>61,323,875</u>

Noncurrent Assets

Restricted cash and cash equivalents	11,568,564
Receivables, net (Note 4)	123,852
Restricted due from primary government	6,401,344
Endowment investments (Note 2)	12,536,064
Other investments (Note 2)	1,669
Notes receivable, net (Note 4)	1,104,792
Capital assets — nondepreciable (Note 5)	33,392,551
Capital assets — depreciable (Note 5)	275,183,698
Total Noncurrent Assets	<u>340,312,534</u>

Total Assets

401,636,409

Liabilities

Current Liabilities

Accounts payable and accrued liabilities (Note 6)	8,487,806
Due to primary government	517,586
Unearned revenue	3,928,110
Interest payable	179,075
Long-term liabilities — current portion (Note 7)	1,947,957
Total Current Liabilities	<u>15,060,534</u>

Noncurrent Liabilities

Funds held for others	93,021
US Government grants refundable	1,212,497
Long-term liabilities (Note 7)	22,056,433
Total Noncurrent Liabilities	<u>23,361,951</u>

Total Liabilities

38,422,485

Net Assets

Invested in capital assets, net of related debt	292,568,384
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	7,536,532
Endowed professorships	7,771,774
Departmental uses	166,605
Loans	280,162
Expendable:	
Scholarships and fellowships	2,296,744
Research	201,875
Endowed professorships	755,160
Departmental uses	3,819,945
Capital projects	12,956,281
Unrestricted	34,860,462
Total Net Assets	<u>\$363,213,924</u>

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2009

Operating Revenues

Student tuition and fees, net (Note 9)	\$ 43,868,907
Federal appropriations	6,346,818
Federal grants and contracts	19,951,365
State and local grants and contracts	1,559,210
Nongovernmental grants and contracts	1,498,725
Sales and services, net (Note 9)	22,013,985
Interest earnings on loans	3,634
Other operating revenues	1,286,845
Total Operating Revenues	<u>96,529,489</u>

Operating Expenses

Salaries and benefits	148,923,992
Supplies and materials	15,727,407
Services	36,097,936
Scholarships and fellowships	13,837,457
Utilities	5,277,137
Depreciation	9,212,211
Total Operating Expenses	<u>229,076,140</u>

Operating Loss

(132,546,651)

Nonoperating Revenues (Expenses)

State appropriations	85,994,863
State aid - Federal Recovery Funds	3,322,095
Noncapital grants - Federal student financial aid	17,527,610
Other noncapital grants	10,997,634
Noncapital gifts	1,016,354
Investment income (net of investment expense of \$53,408)	(1,083,649)
Interest and fees on debt	(792,576)
Other nonoperating expense	(919,109)
Net Nonoperating Revenues	<u>116,063,222</u>

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Income Before Other Revenues and Expenses

(16,483,429)

Refund of prior years capital appropriations	(108,696)
Capital grants	491,351
Additions to permanent endowments	4,205,937

Increase in Net Assets

(11,894,837)

Net Assets

Net assets — July 1, 2008, as restated (Note 16)	<u>375,108,761</u>
Net assets — June 30, 2009	<u>\$ 363,213,924</u>

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

Statement of Cash Flows

For the Year Ended June 30, 2009

Cash Flows from Operating Activities

Received from customers	\$ 93,066,295
Payments to employees and fringe benefits	(147,914,517)
Payments to vendors and suppliers	(56,364,497)
Payments for scholarships and fellowships	(13,837,457)
Loans issued	(89,500)
Collection of loans	155,688
Interest earned on loans	24,981
Other receipts	1,286,845
Net Cash Used by Operating Activities	<u>(123,672,162)</u>

Cash Flows from Noncapital Financing Activities

State appropriations	85,994,863
State aid - Federal Recovery Funds	3,322,095
Noncapital grants - Federal student financial aid	16,895,472
Noncapital grants	12,349,832
Noncapital gifts	1,054,785
Additions to endowments	4,205,937
William D. Ford Direct Lending receipts	49,566,863
William D. Ford Direct Lending disbursements	(49,671,584)
Related activity agency receipts	10,580
Related	(431,908)
Net Cash Provided by Noncapital Financing Activities	<u>123,296,935</u>

Cash Flows from Capital and Related Financing Activities

Refund of prior years capital appropriations	(108,696)
Capital grants	14,103,596
Acquisition and construction of capital assets	(22,004,255)
Principal paid on capital debt	(1,200,000)
Interest and fees paid on capital debt	(806,526)
Net Cash Used by Capital and Related Financing Activities	<u>(10,015,881)</u>

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	14,020,457
Investment Income	445,449
Purchase of investments and related fees	(15,336,849)
Net Cash Used by Investing Activities	<u>(870,943)</u>

Net Decrease in Cash and Cash Equivalents	(11,262,051)
Cash and Cash Equivalents — July 1, 2008	<u>72,020,765</u>

Cash and Cash Equivalents — June 30, 2009 \$ 60,758,714

**Reconciliation of Net Operating Revenues (Expenses) to
Net Cash Used by Operating Activities**

Operating loss		\$(132,546,651)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation		9,212,211
Allowances, write-offs, and amortizations		31,968
Changes in assets and liabilities		
Receivables, net		(749,458)
Due from university component units		(32,669)
Inventories		296,858
Accounts payable and accrued liabilities		141,293
Due to primary government		447,513
Unearned revenue		(1,162,604)
Compensated absences		623,189
Note principal repayments		155,688
Notes issued		(89,500)
Net Cash Used by Operating Activities		<u><u>\$(123,672,162)</u></u>

Reconciliation of Cash and Cash Equivalent Balances

Current assets		
Cash and cash equivalents	\$	35,772,430
Restricted cash and cash equivalents		13,417,720
Noncurrent assets		
Restricted cash and cash equivalents		<u>11,568,564</u>
Total Cash and Cash Equivalents — June 30, 2009	\$	<u>60,758,714</u>

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Noncash Investing, Capital, and Financing Activities

Change in fair value of assets	\$	(1,390,118)
Loss on disposal of Assets		(487,201)

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, 2009

Current Assets

Cash and cash equivalents	\$ 1,216,341
Investments	1,584,655
Unconditional promises to give, net	479,637
Accounts receivable-NCA&TSU	75,891
Other current assets	229,176
Total Current Assets	<u>3,585,700</u>

Restricted Deposits

Bond Operating Reserve Fund	239,603
Bond Interest Fund	9,960
Bond Surplus Fund	4,000
Bond Repair and Replacement Fund	54,244
Bond Taxes and Insurance Fund	115,162
Bond Operation and Maintenance Fund	500,012
Bond Debt Service Fund	3,128,641
Bond Principal Fund	23
Bond Pledged Revenue Fund	689,000
Bond QEA Fund	17,312
Total Restricted Deposits	<u>4,757,957</u>

Endowment Investments	<u>4,044,879</u>
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Property, furniture and equipment, at cost, net	35,584,612
Long-term unconditional promises to give, net	156,943
Other noncurrent assets	<u>3,806,878</u>

Total Assets	<u>\$ 51,936,969</u>
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Liabilities and Net Assets

Current Liabilities

Current maturities of bonds payable	\$ 1,105,000
Accounts payable and accrued liabilities	210,690
Other liabilities	289,830
Total Current Liabilities	<u>1,605,520</u>

Long-Term Liabilities

Bonds payable	<u>44,450,000</u>
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Total Liabilities	<u>46,055,520</u>
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Net Assets

Unrestricted:	
Operating	(1,513,120)
Fixed assets	97,104
Total Unrestricted Net Assets	<u>(1,416,016)</u>
Temporarily restricted	3,032,876
Permanently restricted	4,264,589
Total Net Assets	<u>5,881,449</u>

Total Liabilities and Net Assets	<u>\$ 51,936,969</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Statement of Activities

For the Fiscal Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenues and Reclassifications				
Contributions:				
Foundations and corporations	\$ 7,500	813,740	9,264	830,504
Board of Directors	17,106	945	700	18,751
Individuals/Friends	7,702	878,838	79,949	966,489
Interest and dividends	170,788	141,759	63,633	376,180
Administrative fees	88,114	—	—	88,114
Miscellaneous	1,689	116,403	—	118,092
Unrealized and realized gain (loss) on investments	(657,428)	(970,356)	—	(1,627,784)
Satisfaction of program restrictions	2,339,974	(2,339,974)	—	—
Rental income	5,965,395	—	—	5,965,395
Management fees	257,210	—	—	257,210
Fundraising	130,375	—	—	130,375
Total Public Support, Revenues and Reclassifications	8,328,425	(1,358,645)	153,546	7,123,326
Expenses				
Scholarships — unrestricted	100,000	—	—	100,000
Scholarships — departmental	1,012,112	—	—	1,012,112
Total Scholarships	1,112,112	—	—	1,112,112
Academic departmental programs	1,327,862	—	—	1,327,862
Administration	903,032	—	—	903,032
Student housing	6,052,411	—	—	6,052,411
Transfer to NCA&TSU and promises to give writeoffs	—	—	94,050	94,050
Total Expenses	8,283,305	—	94,050	8,377,355
Change in Net Assets	(1,066,992)	(1,358,645)	59,496	(2,366,141)
Net Assets as of the Beginning of the Year	(349,024)	4,391,521	4,205,093	8,247,590
Net assets as of the End of the Year	\$(1,416,016)	3,032,876	4,264,589	5,881,449

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

Notes to the Financial Statements

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Note 1—Significant Accounting Policies

A. *Financial Reporting Entity*

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina 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 units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data is 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 A&T University Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The North Carolina A&T University Foundation, Inc. is a legally separate, 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.

The North Carolina A&T University Foundation, Inc., 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, 2009, the Foundation distributed \$1,228,687 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the North Carolina A&T University Foundation, Inc., located at 200 North Benbow Road, Greensboro, North Carolina 27411. The mailing address is P. O. Box 20366, Greensboro, North Carolina 27420.



Notes to the Financial Statements

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 Financial Accounting Standards Board (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 includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents

This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, 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 an estimated amount 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 (decrease) in the fair value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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 fee charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from employees, vendors, the federal government, state and local governments, and 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 method, or in the case of agricultural supplies inventory, current market value. Merchandise for resale is valued using the 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.

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for 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 acquisition or 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 or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

Notes to the Financial Statements

J. Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

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 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 either operating or 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.

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 the bookstore and motor pool. In addition, the University has other miscellaneous sales and service units that operate on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying



Notes to the Financial Statements

Note 2—Deposits and Investments

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.

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. In addition, the University of North Carolina Board of Governors, pursuant to G. S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$60,685,189 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 1.8 years as of June 30, 2009. 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was \$56,077. The carrying amount of the University's deposits not with the State Treasurer was \$17,448 and the bank balance was \$97,211. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, the University's bank balance was not exposed to custodial credit risk.

B. Investments

University – The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 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.

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

agreements; obligations of the State of North Carolina; 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 which will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

General Statute 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, are subject to and restricted by General Statute 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 percentage method. Under this method, each participating fund's investment is determined based on it's percentage of the fund on the first of the month. 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, 2009, for the Long-Term Investment Pool.

<u>Investment Type</u>	<u>Fair Value</u>
UNC Investment Fund	\$11,369,335
Other Mutual Funds	1,155,039
Investment in Real Estate	<u>11,690</u>
Total Long-Term Investment Pool	<u>\$12,536,064</u>



Notes to the Financial Statements

UNC Investment Fund, LLC—At June 30, 2009, the University's investments include \$11,369,335 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund, and 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 12.70 years as of June 30, 2009.

Asset and ownership interest of the System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the Controller's Office at the University of North Carolina at Chapel Hill, Campus Box 1270, Chapel Hill, NC 27599-1270.

Non-Pooled Investments – At year end, the University held a money market fund investment with a fair value of \$249 and a maturity of less than one year. The fund is unrated. Also, the University held domestic stocks with a fair value of \$1,420.

Total Investments - The following table presents the fair value of total investments at June 30, 2009:

Investment Type	Fair Value
UNC Investment Fund	11,369,335
Other Mutual Funds	1,155,039
Investment in Real Estate	11,690
Domestic Stocks	1,420
Money Market Mutual Funds	249
Total Investments	<u>\$12,537,733</u>

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Component Units – 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 following is an analysis of investments by type: The Foundation's investments include mutual funds administered by Wachovia Bank (Well's Fargo) in the amount of \$5,615,024 and stock in the amount of \$14,510. The total amount of investments for the North Carolina A&T University Foundation, Inc., is \$5,629,534.

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. During the year, the Board did not appropriate distributions from underwater endowments.

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 principal's average market value at December 31 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, 2009, endowment net assets of \$527,880 were available to be spent, of which \$527,880 was restricted to specific purposes.

Due to the decline in the stock market during recent years, the Endowment Board has taken action to stop the spending of those endowments that are currently "underwater" in 2010.

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, 2009 the amount of investment losses reported against the nonexpendable endowment balances was \$1,589,102.

Note 4—Receivables

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables			
Students	\$ 842,282	378,101	464,181
Accounts	213,995	95,320	118,675
Intergovernmental	8,061,291	—	8,061,291
Pledges	244,600	—	244,600
Investment earnings	73,112	—	73,112
Interest on loans	134,855	—	134,855
Other	588,541	—	588,541
Total Current Receivables	<u>\$10,158,676</u>	<u>473,421</u>	<u>9,685,255</u>
Noncurrent Receivables			
Pledges	<u>\$ 123,852</u>	<u>—</u>	<u>123,852</u>
Notes Receivable			
Notes receivable-current			
Federal loan program	<u>\$ 368,334</u>	<u>—</u>	<u>368,334</u>
Notes receivable-noncurrent			
Federal loan program	<u>\$ 1,714,057</u>	<u>609,265</u>	<u>1,104,792</u>

Notes to the Financial Statements

Note 5—Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1	Increases	Decreases	Balance June 30
Capital Assets, Non-Depreciable:				
Land	\$ 8,889,208	303,250	—	9,192,458
Art, Literature and Artifacts	2,502,077	—	—	2,502,077
Construction in Progress	35,377,504	16,004,697	29,684,185	21,698,016
Total Capital Assets, Non-Depreciable	46,768,789	16,307,947	29,684,185	33,392,551
Capital Assets, Depreciable:				
Buildings	270,860,720	31,009,766	—	301,870,486
Machinery and Equipment	46,517,388	2,743,952	1,819,875	47,441,465
General Infrastructure	14,775,435	2,393,199	—	17,168,634
Total Capital Assets Depreciable	332,153,543	36,146,917	1,819,875	366,480,585
Less Accumulated Depreciation				
Buildings	62,512,116	5,945,250	—	68,457,366
Machinery and Equipment	17,785,765	2,731,386	1,332,675	19,184,476
General Infrastructure	3,119,470	535,575	—	3,655,045
Total Accumulated Depreciation	83,417,351	9,212,211	1,332,675	91,296,887
Total Capital Assets, Depreciable, Net	248,736,192	26,934,706	487,200	275,183,698
Capital Assets, Net	\$295,504,981	43,242,653	30,171,385	308,576,249

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Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts payable	\$4,676,204
Accrued payroll	2,867,512
Contract retainage	566,793
Intergovernmental payables	147,469
Other	229,828
Total accounts payable and accrued liabilities	<u>\$8,487,806</u>

Note 7—Long-Term Liabilities

A. Changes in Long-Term Liabilities

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds payable	\$17,285,000	—	1,200,000	16,085,000	1,240,000
Add/deduct premium/discount	421,162	—	30,333	390,829	—
Deduct deferred charge on refunding	(526,786)	—	(58,823)	(467,963)	—
Total bonds payable	17,179,376	—	1,171,510	16,007,866	1,240,000
Compensated absences	7,373,335	3,605,042	2,981,853	7,996,524	707,957
Total long-term liabilities	\$24,552,711	3,605,042	4,153,363	24,004,390	1,947,957

B. Bonds Payable

The University was indebted for 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 6/30/09	Principal Outstanding 6/30/09	See Table Below
UNC System Pool							
Student Union (A)	1998B	3.25-5.25	10/1/2013	\$ 5,860,000	5,860,000	—	
Parking System (A)	1998B	3.25-5.25	10/1/2013	1,465,000	865,000	600,000	(1)
Stadium System (B)	2000	5.00-5.75	10/1/2012	1,555,000	895,000	660,000	(2)
Student Union (C)	2005A	3.00-4.89	04/1/2014	2,395,000	40,000	2,355,000	
Parking Deck (D)	2006B	3.75-5.00	10/1/2033	5,965,000	190,000	5,775,000	
Dining System (D)	2006B	3.75-5.00	10/1/2020	7,525,000	830,000	6,695,000	
Total Bonds Payable (Principal Only)				\$24,765,000	8,680,000	16,085,000	
Less Unamortized Loss on Refunding						(467,963)	
Less Unamortized Discount						(2,880)	
Plus Unamortized Premium						393,709	
						16,007,866	

(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 2005A

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

Notes to the Financial Statements

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

Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Current Principal and Interest	Estimate of % Revenues Pledged
(1)	Parking Fees	679,728	44,744	137,319	307%
(2)	Stadium System	733,225	253,711	177,850	70%

C. Annual Requirements

The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009 are as follows:

Fiscal Year	Annual Requirements Bonds Payable	
	Principal	Interest
2010	\$ 1,240,000	698,900
2011	1,285,000	648,447
2012	1,345,000	590,031
2013	1,400,000	528,675
2014	1,285,000	468,456
2015-2019	3,580,000	1,788,288
2020-2024	2,255,000	1,073,422
2025-2029	1,400,000	759,944
2030-2034	2,295,000	292,731
Total Requirements	<u>\$16,085,000</u>	<u>6,848,894</u>

D. 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, 2009, the outstanding balance of prior year defeased bonds was \$9,500,000.

E. Pollution Remediation Payable

The University has no pollution remediation obligations liability.

F. Component Units

The North Carolina A&T University Foundation, Inc. issued bonds to finance the construction of student housing. Bonds payable for the Foundation at June 30, 2009 were \$45,555,000.

Note 8—Lease Obligations

Operating Lease Obligations

The University entered into operating leases for equipment and property. Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 171,069
2011	55,829
Total Minimum Lease Payments	<u>\$ 226,898</u>

Rental expense for all operating leases during the year was \$423,971.

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 Allowance for Uncollectables</u>	<u>Net Revenues</u>
Operating revenues:					
Student tuition and fees	\$ 57,411,910	—	13,262,573	280,430	43,868,907
Sales and services:					
Residential life	\$ 8,442,153	—	1,795,132	60,977	6,586,044
Dining	8,212,338	—	1,828,080	61,177	6,323,081
Student Union	29,688	—	—	—	29,688
Health, Physical Education, and Recreation Services	1,540	—	—	—	1,540
Bookstore	5,569,960	168,383	—	39	5,401,538
Parking	1,330,898	—	—	(16,375)	1,347,273
Athletic	1,803,618	—	—	—	1,803,618
Recreational Services	68,591	—	—	(7,421)	76,012
Other	285,357	—	—	—	285,357
Sales and services of educational and related activities	2,057,402	1,897,568	—	—	159,834
Total sales and services	<u>\$ 27,801,545</u>	<u>2,065,951</u>	<u>3,623,212</u>	<u>98,397</u>	<u>22,013,985</u>



Notes to the Financial Statements

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	\$ 69,909,657	1,291,581	2,201,147	1,123,165	—	—	74,525,550
Research	15,066,312	1,689,202	5,840,509	1,464,800	915	—	24,061,738
Public Service	5,271,695	391,209	1,674,712	485,153	—	—	7,822,769
Academic Support	15,164,608	4,499,362	4,252,677	1,750,200	—	—	25,666,847
Student Services	5,995,839	190,623	938,556	153,170	—	—	7,278,188
Institutional Support	16,324,516	510,784	2,495,411	207,137	8,017	—	19,545,865
Operations and Maintenance of Plant	9,165,884	401,225	4,003,676	—	3,673,214	—	17,243,999
Student Financial Aid	250,138	401,021	579,379	6,210,249	—	—	7,440,787
Auxiliary Enterprises	11,775,343	6,352,400	14,111,869	2,443,583	1,594,991	—	36,278,186
Depreciation	—	—	—	—	—	9,212,211	9,212,211
Total	\$148,923,992	15,727,407	36,097,936	13,837,457	5,277,137	9,212,211	229,076,140

Note 11—Pension Plans

A. Retirement Plans

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 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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$121,555,367, of which \$67,371,765 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,263,691 and \$4,042,306, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$2,263,691, \$1,923,707, and \$1,581,550, 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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, 2009, 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 \$121,555,367 of which \$37,458,220 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,562,142 and \$2247,493, 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 January 1, 1987. Participants contributed 7% of their salary to CSRS and the University match was 7%. For the year ended June 30, 2009, covered payroll was \$780,932, and total employer and employee contributions were \$54,665 each.

B. Deferred Compensation and Supplemental Retirement Income

IRC 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 \$310,701 for the year ended June 30, 2009.

Notes to the Financial Statements

IRC 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, 2009, were \$58,222. The voluntary contributions by employees amounted to \$527,460 for the year ended June 30, 2009.

IRC 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. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,223,615 for the year ended June 30, 2009.

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 Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provided 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 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 General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1% 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, 2008, and 2009, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$4,345,771, \$3,968,876, and \$3,433,784, respectively. The University assumes no liability for retiree health care benefits provided by the

programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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 in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, 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, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$551,171, \$503,370, and \$469,886, 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.

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to 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.



Notes to the Financial Statements

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 pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

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

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

Note 14—Commitments

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 \$52,185,125 and on other purchases were \$11,295,868 at June 30, 2009.

B. Pending Litigation and Claims

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



Note 15—Changes in Financial Accounting and Reporting

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement 31 which required endowments to report land and other real estate investments at historical cost.

Note 16—Net Asset Restatement

As of July 1, 2008, net assets as previously reported was restated as follows:

July 1, 2008, Net Assets as Previously Reported	\$363,602,431
Restatement: Errors in depreciation and in establishing useful lives of capital assets	<u>11,506,330</u>
July 1, 2008 Net Assets as Restated	<u>\$375,108,761</u>

