

North Carolina Agricultural and Technical State University

2010 Financial Report



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Letter of Transmittal

January 27, 2011

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, 2010. 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 2010 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, 2010.

Respectfully submitted,



Robert Pompey, Jr.
Vice Chancellor
for Business and Finance

The Board of Trustees and University Officers

The Board of Trustees at June 30, 2010

Pamela McCorkle Buncum, Chair	Atlanta, Georgia
Stanley L. Allen	Greensboro, North Carolina
Spence H. Broadhurst	Greensboro, North Carolina
Karen J. Collins	Willowbrook, IL
Charles C. Cornelio	Greensboro, NC
Willie Deese	Whitehouse Station, New Jersey
Emerson U. Fullwood	Pittsford, New York
Janice Bryant Howroyd	Torrance, California
Albert S. Lineberry, Jr.	Greensboro, North Carolina
Bertram E. Walls	Durham, North Carolina
Faye Tate Williams	Hillsborough, North Carolina
Patricia Miller Zollar	New York, New York
Syene Jasmin, President Student Government Association	

University Officers at June 30, 2010

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
J. Charles Waldrup	Special Assistant to the Chancellor for Legal Affairs
Mark Kiel	Vice Chancellor for University Advancement
Linda R. McAbee	Vice Chancellor for Human Resources
Robert Pompey, Jr.	Vice Chancellor for Business and Finance
Celestine A. Ntuen (Interim)	Vice Chancellor for Research and Economic Development
Barbara J. Ellis (Interim)	Vice Chancellor for Information Technology and Telecommunications
Judy N. Rashid (Interim)	Vice Chancellor for Student Affairs
Wheeler Brown	Director of Athletics

Academic Deans:

Ceola Ross Baber	School of Education
Patricia A. Chamings (Interim)	School of Nursing
Kenneth H. Murray (Interim)	School of Graduate Studies
Quiester Craig	School of Business and Economics
Joseph L. Graves, Jr.	University Studies
Doris F. Mitchell (Interim)	Library Services
Winser E. Alexander (Interim)	College of Engineering
David W. Aldridge (Interim)	College of Arts and Sciences
Donald Ray McDowell (Interim)	School of Agriculture and Environmental Sciences
Benjamin O. 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, 2010. Comparative data for the year ended June 30, 2009 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, 2010, as 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 assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into

Condensed Statement of Net Assets

	2010	2009	Change
Assets			
Current assets	\$ 63,934,397	61,323,875	2,610,522
Noncurrent capital assets, net of accumulated depreciation	313,406,573	302,932,000	10,474,573
Other noncurrent assets	21,095,764	31,736,284	(10,640,520)
Total Assets	398,436,734	395,992,159	2,444,575
Liabilities			
Current liabilities	17,389,033	15,060,534	2,328,499
Noncurrent liabilities	22,253,786	23,361,951	(1,108,165)
Total Liabilities	39,642,819	38,422,485	1,220,334
Net Assets			
Investment in capital assets, net of related debt	298,610,218	286,924,134	11,686,084
Restricted-nonexpendable	18,431,198	15,755,073	2,676,125
Restricted-expendable	6,829,562	20,030,005	(13,200,443)
Unrestricted	34,922,937	34,860,462	62,475
Total Net Assets	\$358,793,915	357,569,674	1,224,241

Management's Discussion and Analysis

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.

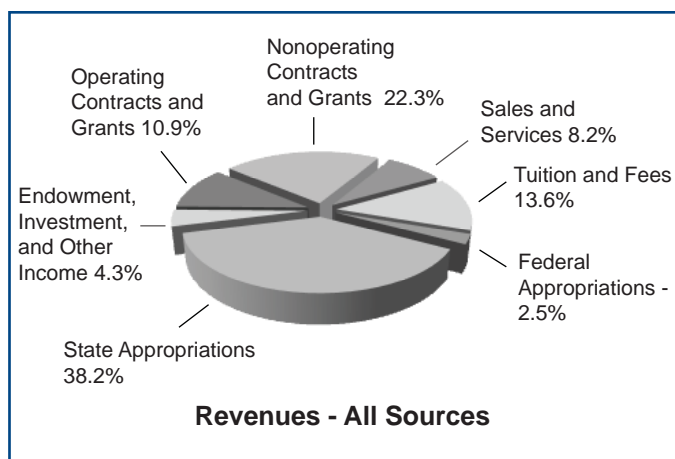
Current assets increased by \$2,610,522. The increase is primarily due to an increase in unrestricted cash and cash equivalents of \$6,133,625 offset by decreases in restricted cash and cash equivalents of \$2,867,828 and accounts receivable of \$569,341. The increase in unrestricted cash is primarily the result of increases in cash held by Auxiliary funds due to strong revenues in 2010. Restricted cash decreased as funds held for capital improvement projects were expended during the year. Accounts receivable decreased because the University collected major receivables for Federal financial aid awards by June 30, 2010.

While noncurrent assets decreased by only \$165,947 during the year, there were large changes in the categories that make up that figure. Capital assets increased by \$10,474,573, net of depreciation. The increase was the result of current year expenditures for buildings, equipment, and construction in progress. The amount due from primary government decreased by \$6,182,035, as large construction projects funded through State bonds were completed by year end. In addition, noncurrent restricted cash decreased by \$9,129,094 as the University spent cash that was on hand at June 30, 2009 for capital and maintenance projects during the 2010 fiscal year. Endowment investments increased by \$4,898,550, a result of market appreciation as well as investment of gifts and net earnings.

Net assets increased during the year by \$1,224,241. Investment in capital assets increased by \$11,686,084, primarily a result of amounts expended on buildings and equipment during the year. The increase of nonexpendable net assets resulted primarily from endowment gifts of \$2,033,967 with the remaining balance provided by market appreciation. Net assets reserved for capital projects decreased by \$12,956,281, the result of 2010 cash expenditures and year end accruals. Restricted net assets decreased by \$244,163 as amounts held in restricted funds decreased slightly during the year.

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. Interdepartmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded. The accounting for certain State grants received for scholarships and fellowships was modified in 2010. Those grants, starting with the 2010 fiscal year, are reflected as nonoperating revenue with a corresponding increase in scholarship expense, subject to tuition discounting. In order to enhance comparability 2009 has been restated.

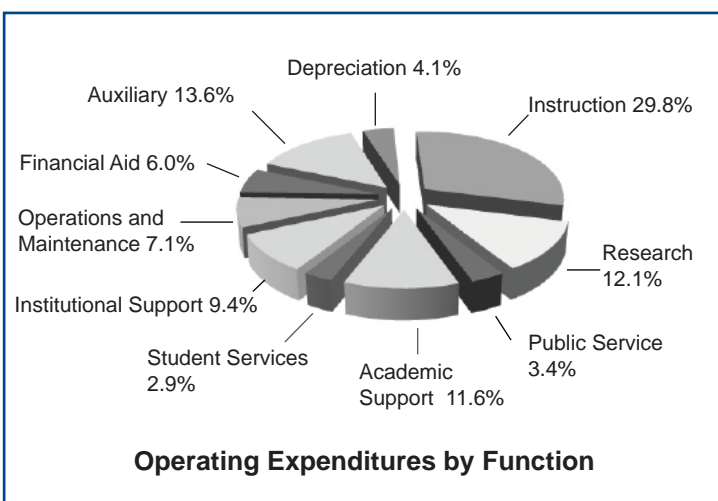
The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets and revenues at year end.

Management's Discussion and Analysis

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

	2010	Restated 2009	Change
Operating Revenues			
Student tuition and fees	\$ 35,214,805	38,985,058	(3,770,253)
Grants and contracts	28,174,080	23,009,300	5,164,780
Federal appropriations	6,517,982	6,346,818	171,164
Sales and services	21,165,290	20,679,763	485,527
Other operating revenues	1,561,890	1,290,478	271,412
Total Operating Revenues	92,634,047	90,311,417	2,322,630
Operating Expenses			
Salaries and Benefits	151,169,936	148,923,992	2,245,944
Supplies and Materials	18,700,102	15,727,407	2,972,695
Services	39,272,950	36,097,936	3,175,014
Scholarships and Fellowships	20,903,539	18,706,714	2,196,825
Utilities	5,565,273	5,277,137	288,136
Depreciation	10,042,060	9,212,211	829,849
Total Operating Expenses	245,653,860	233,945,397	11,708,463
Operating Loss	(153,019,813)	(143,633,980)	(9,385,833)
Nonoperating Revenues (Expenses)			
State appropriations	98,818,559	89,316,958	9,501,601
Noncapital gifts and grants	57,684,218	40,628,927	17,055,291
Grant to Gateway University Research Park	(10,184,267)	(5,644,250)	(4,540,017)
Interest and fees on debt	(1,038,134)	(792,576)	(245,558)
Investment income (loss)	2,222,111	(1,083,649)	3,305,760
Other nonoperating expenses	(234,623)	(919,109)	684,486
Net Nonoperating Revenues (Expenses)	147,267,864	121,506,301	25,761,563
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(5,751,949)	(22,127,679)	16,375,730
Other Revenues			
Capital appropriations and grants	5,133,704	491,351	4,642,353
Refund of prior years capital appropriations	(191,481)	(108,696)	(82,785)
Additions to permanent endowments	2,033,967	4,205,937	(2,171,970)
Total Other Revenues	6,976,190	4,588,592	2,387,598
Total Increase (Decrease) in Net Assets	1,224,241	(17,539,087)	18,763,328
Net Asset			
Beginning of the year	357,569,674	375,108,761	(17,539,087)
End of the year	\$358,793,915	357,569,674	1,224,241

Management's Discussion and Analysis



Operating revenues increased by \$2,322,630. The major categories making up that change are student tuition and fees as well as Federal contracts and grants. Although overall enrollment has increased, tuition and fees decreased by \$3,770,253, a result of a decline in out-of-state students. Contracts and grants increased by \$5,164,780. The University received funds in 2010 for large grants from the Department of Defense as well as the National Science Foundation

The University experienced an increase in net nonoperating revenue of \$25,761,563. The State increased appropriations to the University by \$6,360,497, a 7.4% change from the prior year. The additional appro-

priations were used for salaries and operational costs for the College of Engineering's Engineering Research Center, established by a grant from the National Science Foundation as well as for the Center of Excellence for Post Harvest Technology in Kannapolis. The State also increased the amount of the University's pro-rata share of Federal American Recovery and Reinvestment Act funds by \$3,141,104. The increase in noncapital grants was composed primarily of a substantial increase in PELL financial aid awards of \$8,048,216, a state grant for the Joint School of Nanoscience and Nanotechnology in the amount of \$7,380,721, and increases in State financial aid grants of \$496,783. Investment markets improved significantly during the 2010 fiscal year, resulting in an increase in investment income from the prior year of \$3,305,760. These increases in revenue were off-set by an increase in the cost of the construction grant to Gateway University Research Park, Inc. of \$4,540,018.

The increase in other revenues of \$2,387,598 was due primarily to State grants that fund the construction of a general classroom facility on the University's main campus. The increase in State grants was offset by the reduction in additions to endowments.

The increase in operating expenses of \$11,708,463 was spread across all categories. Personnel services increased by only 1.51% or \$2,245,944. Supplies and materials increased by \$2,972,695, due primarily to costs associated with facility maintenance and repair. The increase in services of \$3,175,014 was due in large part to subcontracted expenses associated with the increase in Federal research awards. Scholarships increased by \$2,196,825, primarily caused by increases in PELL and State scholarship grants, net of tuition discounting.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 61.54% of operating expenses, followed by services at 15.99%, scholarships at 8.51%, supplies and materials at 7.61%, depreciation at 4.09%, and utility costs at 2.26%.

Capital Assets and Debt Administration

The cost of construction projects continued to exert significant influence on the University's financial statements in past fiscal years. 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,

Management's Discussion and Analysis



Rendering of the exterior of the new general classroom facility on schedule for completion in 2011.

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 completed at June 30, 2010, bringing to a close a nine year period of significant construction activity. During 2010, the University completed the final bond funded renovation projects for classroom and laboratory buildings totaling \$18,086,550. The University started construction on a new classroom facility that made up \$11,352,395 of the \$12,368,545 construction in progress costs at year end. At June 30, 2010, outstanding commitments on construction contracts totaled \$8,144,153. These commitments were primarily associated with the new classroom facility under construction. An additional \$47,280,855 was committed to Gateway University

Research Park, Inc. for the construction of the Joint School of Nanoscience and Nanoengineering classroom and laboratory facility.

Long-term debt totaled \$14,845,000 at June 30, 2010. The University reduced outstanding debt by principal payments of \$1,240,000 during the year.

Economic Forecast

Despite the increase in State support in fiscal year 2010, current national economic events continue to adversely impact State revenues to the extent that an additional 5 to 10 percent decrease in the authorized budget for 2011 is anticipated. However, University management believes that enrollment growth, increased research activity, and fundraising efforts will 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.

Statement of Net Assets

June 30, 2010

Assets

Current Assets

Cash and cash equivalents	\$ 41,906,055
Restricted cash and cash equivalents	10,549,882
Receivables, net (Note 4)	9,116,024
Due from state of North Carolina component units	10,230
Inventories	2,026,651
Notes receivable (Note 4)	325,555
Total Current Assets	63,934,397

Noncurrent Assets

Restricted cash and cash equivalents	2,439,471
Receivables, net (Note 4)	81,100
Restricted due from primary government	219,308
Endowment investments (Note 2)	17,434,614
Other investments (Note 2)	1,415
Notes receivable, net (Note 4)	919,856
Capital assets — nondepreciable (Note 5)	24,422,685
Capital assets — depreciable (Note 5)	288,983,888
Total Noncurrent Assets	334,502,337

Total Assets

398,436,734

Liabilities

Current Liabilities

Accounts payable and accrued liabilities (Note 6)	11,176,771
Due to primary government	84,460
Unearned revenue	3,875,298
Interest payable	166,541
Long-term liabilities — current portion (Note 7)	2,085,963
Total Current Liabilities	17,389,033

Noncurrent Liabilities

Funds held for others	96,202
US Government grants refundable	1,172,712
Long-term liabilities (Note 7)	20,984,872
Total Noncurrent Liabilities	22,253,786

Total Liabilities

39,642,819

Net Assets

Invested in capital assets, net of related debt	298,610,218
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	9,670,243
Endowed professorships	8,226,886
Departmental uses	258,327
Loans	275,742
Expendable:	
Scholarships and fellowships	1,958,940
Research	287,608
Endowed professorships	945,822
Departmental uses	3,637,192
Unrestricted	34,922,937
Total Net Assets	\$358,793,915

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

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2010

Operating Revenues

Student tuition and fees, net (Note 9)	\$ 35,214,805
Federal appropriations	6,517,982
Federal grants and contracts	25,907,342
State and local grants and contracts	1,313,910
Nongovernmental grants and contracts	952,828
Sales and services, net (Note 9)	21,165,290
Interest earnings on loans	3,953
Other operating revenues	<u>1,557,937</u>
Total Operating Revenues	<u>92,634,047</u>

Operating Expenses

Salaries and benefits	151,169,936
Supplies and materials	18,700,102
Services	39,272,950
Scholarships and fellowships	20,903,539
Utilities	5,565,273
Depreciation	<u>10,042,060</u>
Total Operating Expenses	<u>245,653,860</u>

Operating Loss

(153,019,813)

Nonoperating Revenues (Expenses)

State appropriations	98,818,559
Noncapital grants - Federal student financial aid	26,621,768
Other noncapital grants	29,873,667
Noncapital gifts	1,188,783
Investment income	2,222,111
Interest and fees on debt	(1,038,134)
Grant to Gateway University Research Park	(10,184,267)
Other nonoperating expense	<u>(234,623)</u>
Net Nonoperating Revenues	<u>147,267,864</u>

Income Before Other Revenues and Expenses

(5,751,949)

Refund of prior years capital appropriations	(191,481)
Capital grants	4,617,686
Capital gifts	516,018
Additions to permanent endowments	<u>2,033,967</u>

Increase in Net Assets

1,224,241

Net Assets

Net assets — July 1, 2009	<u>357,569,674</u>
Net assets — June 30, 2010	<u>\$358,793,915</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, 2010

Cash Flows from Operating Activities

Received from customers	\$ 91,841,559
Payments to employees and fringe benefits	(150,917,342)
Payments to vendors and suppliers	(62,715,606)
Payments for scholarships and fellowships	(20,903,539)
Collection of loans	199,105
Interest earned on loans	26,540
Other receipts	1,557,937
Net Cash Used by Operating Activities	<u>(140,911,346)</u>

Cash Flows from Noncapital Financing Activities

State appropriations	98,818,559
Noncapital grants - Federal student financial aid	26,484,016
Noncapital grants	29,540,709
Noncapital gifts	1,406,135
Additions to endowments	2,033,967
Federal Family Education Loan receipts	1,062,676
Federal Family Education Loan disbursements	(1,062,676)
William D. Ford Direct Lending receipts	57,944,505
William D. Ford Direct Lending disbursements	(57,944,505)
Related activity agency receipts	24,837
Related activity agency disbursements	(21,657)
Other receipts (payments)	(10,184,267)
Net Cash Provided by Noncapital Financing Activities	<u>148,102,299</u>

Cash Flows from Capital and Related Financing Activities

Refund of prior years capital appropriations	(191,481)
Capital grants	10,799,721
Acquisition and construction of capital assets	(18,739,076)
Principal paid on capital debt	(1,240,000)
Interest and fees paid on capital debt	(1,022,179)
Net Cash Used by Capital and Related Financing Activities	<u>(10,393,015)</u>

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	91,046
Investment Income	1,102,497
Purchase of investments and related fees	(3,854,788)
Net Cash Used by Investing Activities	<u>(2,661,245)</u>

Net Decrease in Cash and Cash Equivalents	(5,863,307)
Cash and Cash Equivalents — July 1, 2009	<u>60,758,715</u>

Cash and Cash Equivalents — June 30, 2010	<u>\$ 54,895,408</u>
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Statement of Cash Flows

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

Operating loss	\$ (153,019,813)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	10,042,060
Allowances, write-offs, and amortizations	28,609
Changes in assets and liabilities	
Receivables, net	747,585
Due from State of North Carolina Component Unit	60,000
Due from university component units	(10,230)
Inventories	(6,515)
Accounts payable and accrued liabilities	1,153,019
Due to primary government	(433,126)
Unearned revenue	50,004
Compensated absences	277,956
Note principal repayments	199,105
Net Cash Used by Operating Activities	<u>\$ (140,911,346)</u>

Reconciliation of Cash and Cash Equivalent Balances

Current assets	
Cash and cash equivalents	\$ 41,906,055
Restricted cash and cash equivalents	10,549,882
Noncurrent assets	
Restricted cash and cash equivalents	<u>2,439,471</u>
Total Cash and Cash Equivalents — June 30, 2010	<u>\$ 54,895,408</u>

Noncash Investing, Capital, and Financing Activities

Assets acquired through a gift	516,019
Change in fair value of investments	1,134,554
Reinvestment distributions	175,185
Loss on disposal of capital assets	(234,623)

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, 2010

Current Assets	
Cash and cash equivalents	\$ 1,651,499
Investments	2,543,312
Unconditional promises to give, net	185,709
Accounts receivable-NCA&TSU	136,979
Other current assets	418,499
Total Current Assets	<u>4,935,998</u>
Restricted Deposits	
Bond Operating Reserve Fund	500,000
Bond Interest Fund	9,313
Bond Surplus Fund	1,524,827
Bond Repair and Replacement Fund	18,265
Bond Debt Service Fund	3,128,703
Total Restricted Deposits	<u>5,181,108</u>
Endowment Investments	<u>4,095,943</u>
Property, furniture and equipment, at cost, net	34,689,584
Long-term unconditional promises to give, net	83,241
Other noncurrent assets	<u>3,656,713</u>
Total Assets	<u>\$ 52,642,587</u>
Liabilities and Net Assets	
Current Liabilities	
Current maturities of bonds payable	1,165,000
Accounts payable and accrued liabilities	78,557
Other liabilities	363,531
Total Current Liabilities	<u>1,607,088</u>
Long-Term Liabilities	
Bonds payable	<u>43,265,000</u>
Total Liabilities	<u>44,872,088</u>
Net Assets	
Unrestricted:	
Operating	(131,249)
Fixed assets	97,623
Total Unrestricted Net Assets	<u>(33,626)</u>
Temporarily restricted	3,555,184
Permanently restricted	4,248,941
Total Net Assets	<u>7,770,499</u>
Total Liabilities and Net Assets	<u>\$ 52,642,587</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, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenues and Reclassifications				
Contributions:				
Foundations and corporations	\$ 33,674	914,573	9,068	957,315
Board of Directors	13,150	5,500	1,000	19,650
Individuals/Friends	8,304	840,850	57,697	906,851
Interest and dividends	73,551	108,550	5,945	188,046
Administrative fees	94,768	—	—	94,768
Miscellaneous	6,000	196,031	—	202,031
Unrealized and realized gain (loss) on investments	321,320	470,266	(33,421)	758,165
Satisfaction of program restrictions	2,013,462	(2,013,462)	—	—
Rental income	7,090,103	—	—	7,090,103
Management fees	304,505	—	—	304,505
Fundraising	138,032	—	—	138,032
Total Public Support, Revenues and Reclassifications	10,096,869	522,308	40,289	10,659,466
Expenses				
Scholarships — unrestricted	100,000	—	—	100,000
Scholarships — departmental	846,163	—	—	846,163
Total Scholarships	946,163	—	—	946,163
Academic departmental programs	1,167,299	—	—	1,167,299
Administration	793,669	—	—	793,669
Student housing	5,807,348	—	—	5,807,348
Transfer to NCA&TSU and promises to give writeoffs	—	—	55,937	55,937
Total Expenses	7,768,316	—	55,937	7,824,253
Change in Net Assets	1,382,390	522,308	(15,648)	1,889,050
Net Assets as of the Beginning of the Year	(1,416,016)	3,032,876	4,264,589	5,881,449
Net assets as of the End of the Year	\$ (33,626)	3,555,184	4,248,941	7,770,499

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

Notes to the Financial Statements

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Notes to the Financial Statements

Note 1—Significant Accounting Policies

A. *Financial Reporting Entity*

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina 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 is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit—The North Carolina A&T 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 its relationship to the University. The Foundation is a tax exempt component unit of the University and 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 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, 2010, the Foundation distributed \$1,261,601 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.

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*,

Notes to the Financial Statements

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 mutual fund 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 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 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, 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.

Notes to the Financial Statements

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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater. 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 25 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.

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.

Notes to the Financial Statements

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 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

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 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. 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$54,771,389 which represents the University's equity position in the State Treasurer's Short Term Investment

Notes to the Financial Statements

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 1.6 years as of June 30, 2010. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2010 was \$44,697. The carrying amount of the University's deposits not with the State Treasurer, was \$79,322 and the bank balance was \$68,813. 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 as 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, 2010, 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 G.S. 116 36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

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

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, 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.

Notes to the Financial Statements

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.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial 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 its 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, 2010, for the Long-Term Investment Pool.

Investment Type	Fair Value	Investment Maturities 6 to 10 years
Mutual Bond Funds	\$ 1,231,876	<u>1,231,876</u>
UNC Investment Fund	14,851,835	
Other Mutual Funds	1,339,213	
Investment in Real Estate	<u>11,690</u>	
Total Long-Term Investment Pool	<u>\$17,434,614</u>	

At June 30, 2010, investments in the Long Term Investment Pool had the following credit quality distribution for securities with credit exposure:

Investment Type	Fair Value	Rating: A
Mutual Bond Funds	<u>\$1,231,876</u>	<u>\$1,231,876</u>

Notes to the Financial Statements

UNC Investment Fund, LLC – At June 30, 2010, the University's investments include \$14,851,834 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System 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 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 UNC CH Controller's Office, 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 \$1 and a maturity of less than one year. The fund is unrated. Also, the University held domestic stocks with a fair value of \$1,414.

Total Investments - The following table presents the fair value of total investments at June 30, 2010:

Investment Type	Fair Value
Mutual Bond Funds	\$ 1,231,876
Money Market Mutual Funds	1
UNC Investment Fund	14,851,835
Other Mutual Funds	1,339,213
Investment in Real Estate	11,690
Domestic Stocks	<u>1,414</u>
Total Investments	<u>\$17,436,029</u>

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 Charles Schwab in the amount of \$6,625,285 and stock in the amount of \$13,970. The total amount of investments for the North Carolina A&T University Foundation, Inc., is \$6,639,255.

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

Notes to the Financial Statements

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, 2010, endowment net assets of \$873,055 were available to be spent, of which \$873,055 was restricted to specific purposes.

During past years, 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, 2010 the amount of investment losses reported against the nonexpendable endowment balances were \$958,325. 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" .

Note 4—Receivables

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables			
Students	\$ 645,972	413,036	232,936
Accounts	443,495	58,045	385,450
Intergovernmental	7,718,818	—	7,718,818
Pledges	70,000	—	70,000
Investment earnings	58,172	—	58,172
Interest on loans	140,878	—	140,878
Other	509,770	—	509,770
Total Current Receivables	<u>\$ 9,587,105</u>	<u>471,081</u>	<u>9,116,024</u>
Noncurrent Receivables			
Pledges	<u>\$ 81,100</u>	<u>—</u>	<u>81,100</u>
Notes Receivable			
Notes receivable-current			
Federal loan program	<u>\$ 325,555</u>	<u>—</u>	<u>325,555</u>
Notes receivable-noncurrent			
Federal loan program	<u>\$ 1,544,301</u>	<u>624,445</u>	<u>919,856</u>

Notes to the Financial Statements

Note 5—Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1	Increases	Decreases	Balance June 30
Capital Assets, Non-Depreciable:				
Land	\$ 9,192,458	359,605	—	9,552,063
Art, Literature and Artifacts	2,502,077	—	—	2,502,077
Construction in Progress	16,053,767	10,771,507	14,456,729	12,368,545
Total Capital Assets, Non-Depreciable	27,748,302	11,131,112	14,456,729	24,422,685
Capital Assets, Depreciable:				
Buildings	301,870,486	19,410,161	—	321,280,647
Machinery and Equipment	47,441,465	4,138,374	722,187	50,857,652
General Infrastructure	17,168,634	549,592	—	17,718,226
Total Capital Assets Depreciable	366,480,585	24,098,127	722,187	389,856,525
Less Accumulated Depreciation				
Buildings	68,457,366	6,379,363	—	74,836,729
Machinery and Equipment	19,184,476	3,093,252	466,310	21,811,418
General Infrastructure	3,655,045	569,445	—	4,224,490
Total Accumulated Depreciation	91,296,887	10,042,060	466,310	100,872,637
Total Capital Assets, Depreciable, Net	275,183,698	14,056,067	255,877	288,983,888
Capital Assets, Net	\$ 302,932,000	25,187,179	14,712,606	313,406,573

Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts payable	\$ 7,514,754
Accrued payroll	2,842,150
Contract retainage	485,007
Intergovernmental payables	200,636
Other	134,224
Total accounts payable and accrued liabilities	\$11,176,771

Notes to the Financial Statements

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, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Bonds payable	\$16,085,000	—	1,240,000	14,845,000	1,285,000
Add/deduct premium/discount	390,829	—	30,333	360,496	—
Deduct deferred charge on refunding	(467,963)	—	(58,822)	(409,141)	—
Total bonds payable	16,007,866	—	1,211,511	14,796,355	1,285,000
Compensated absences	7,996,524	5,549,530	5,271,574	8,274,480	800,963
Total long-term liabilities	\$24,004,390	5,549,530	6,483,085	23,070,835	2,085,963

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 6/30/10	Principal Outstanding 6/30/10	See Table Below
UNC System Pool							
Parking System (A)	1998B	3.25-5.25	10/1/2013	\$ 1,465,000	975,000	490,000	(1)
Stadium System (B)	2000	5.00-5.75	10/1/2012	1,555,000	1,045,000	510,000	(2)
Student Union (C)	2005A	3.00-4.89	04/1/2014	2,395,000	475,000	1,920,000	
Parking Deck (D)	2006B	3.75-5.00	10/1/2033	5,965,000	290,000	5,675,000	
Dining System (D)	2006B	3.75-5.00	10/1/2020	7,525,000	1,275,000	6,250,000	
Total Bonds Payable (Principal Only)				\$18,905,000	4,060,000	14,845,000	
Less Unamortized Loss on Refunding						(409,141)	
Less Unamortized Discount						(2,057)	
Plus Unamortized Premium						362,553	
						14,796,355	

(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 Year Principal	Current Year Interest	Estimate of % Revenues Pledged
(1)	Parking Fees	542,259	733,614	110,000	26,093	19%
(2)	Stadium System	552,625	364,600	150,000	28,725	49%

C. Annual Requirements

The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010 are as follows:

Fiscal Year	Annual Requirements Bonds Payable	
	Principal	Interest
2010	\$ 1,285,000	648,447
2011	1,345,000	590,031
2012	1,400,000	528,675
2013	1,285,000	468,456
2014	660,000	413,994
2015-2019	3,745,000	1,635,900
2020-2024	1,630,000	987,816
2025-2029	1,615,000	686,275
2030-2034	1,880,000	190,400
Total Requirements	<u>\$14,845,000</u>	<u>6,149,994</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, 2010, the outstanding balance of prior year defeased bonds was \$6,675,000.

E. Component Unit

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, 2010 were \$44,430,000.

Notes to the Financial Statements

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, 2010:

Fiscal Year	Amount
2011	\$ 148,733
2012	40,142
2013	29,575
2014	9,648
Total Minimum Lease Payments	<u>\$ 228,098</u>

Rental expense for all operating leases during the year was \$545,862.

Note 9—Revenues

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

	Gross Revenues	Internal Sales Elimination	Less Scholarship Discounts	Less Allowance for Uncollectables	Net Revenues
Operating revenues:					
Student tuition and fees	\$ 58,178,528	—	22,559,039	404,684	35,214,805
Sales and services:					
Residential life	\$ 9,511,813	—	3,469,428	57,180	5,985,205
Dining	9,286,800	—	3,617,207	58,932	5,610,661
Student Union	22,472	—	—	—	22,472
Health, Physical Education, and Recreation Services	2,360	—	—	—	2,360
Bookstore	5,562,309	112,917	—	35	5,449,357
Parking	1,396,851	—	—	(37,275)	1,434,126
Athletic	2,152,650	—	—	—	2,152,650
Other	408,075	—	—	—	408,075
Sales and services of educational and related activities	2,084,363	1,983,979	—	—	100,384
Total sales and services	<u>\$ 30,427,693</u>	<u>2,096,896</u>	<u>7,086,635</u>	<u>78,872</u>	<u>21,165,290</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	\$ 69,104,096	1,940,088	1,574,422	549,251	9,758	—	73,177,615
Research	16,872,817	2,507,825	9,035,872	1,287,369	(6)	—	29,703,877
Public Service	4,979,178	881,662	2,219,332	280,161	—	—	8,360,333
Academic Support	15,559,722	5,775,226	5,502,061	1,754,396	545	—	28,591,950
Student Services	5,868,948	297,854	913,048	90,423	—	—	7,170,273
Institutional Support	16,712,648	807,594	5,247,823	257,941	3,039	—	23,029,045
Operations and Maintenance of Plant	9,351,046	1,316,397	2,831,939	—	3,938,561	—	17,437,943
Student Financial Aid	286,688	70,635	116,278	14,201,709	—	—	14,675,310
Auxiliary Enterprises	12,434,793	5,102,821	11,832,175	2,482,289	1,613,376	—	33,465,454
Depreciation	—	—	—	—	—	10,042,060	10,042,060
Total	\$ 151,169,936	18,700,102	39,272,950	20,903,539	5,565,273	10,042,060	245,653,860

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$123,319,166 of which \$70,672,701 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,523,015 and \$4,240,362, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$2,523,015, \$2,263,691, and \$1,923,707, respectively.

Notes to the Financial Statements

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 \$123,319,166 of which \$34,840,817 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,383,112 and \$2,090,449, 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, 2010, covered payroll was \$712,455, and total employer and employee contributions were \$49,872 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 \$283,985 for the year ended June 30, 2010.

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, 2010, were \$52,783. The voluntary contributions by employees amounted to \$509,883 for the year ended June 30, 2010.

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 \$1,182,545 for the year ended June 30, 2010.

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 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 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 4.5% 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, 2009, and 2008, were 4.1% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$4,748,108, \$4,298,029, and \$3,968,876, 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

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, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$548,670, \$545,116, and \$503,370, 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.

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

Notes to the Financial Statements

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 \$8,144,153 and on other purchases were \$9,439,353 at June 30, 2010.

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.

C. Commitment to Gateway University Research Park, Inc.

The University has established a commitment to Gateway University Research Park, Inc. in the amount of \$47,280,855 for the payment of future construction costs incurred by Gateway for the building of the Joint School of Nanoscience and Nanoengineering.

Notes to the Financial Statements

D. 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	<u>\$1,033,237</u>

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 economic development.

During the fiscal year, the University made payments and incurred additional liabilities totaling \$10,184,267 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,

Note 16—Changes in Financial Accounting and Reporting

For the fiscal year ended June 30, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.