

# North Carolina Agricultural and Technical State University

## 2011 Financial Report



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# Letter of Transmittal

January 01, 2012

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, 2011. 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 2011 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, 2011.

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, 2011

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
Wayne M. Kimball, Jr., President Student Government Association	

## University Officers at June 30, 2011

### **General Administration:**

Harold L. Martin, Sr.	Chancellor
Linda T. Adams	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	Vice Chancellor for Information Technology and Telecommunications
Melody C. Pierce	Vice Chancellor for Student Affairs
Earl M. Hilton, III	Director of Athletics

### **Academic Deans:**

Dorothy Leflore (Interim)	School of Education
Patricia A. Chamings (Interim)	School of Nursing
Alan Letton (Interim)	School of Graduate Studies
Quiester Craig	School of Business and Economics
Doris F. Mitchell (Interim)	Library Services
Winser E. Alexander (Interim)	College of Engineering
Goldie Byrd	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, 2011. Comparative data for the year ended June 30, 2010 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, 2011, 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

	2011	2010	Change	Percent
<b>Assets</b>				
Current assets	\$ 59,848,888	63,934,397	(4,085,509)	(6.39)
Noncurrent capital assets, net of accumulated depreciation	323,334,802	313,406,573	9,928,229	3.17
Other noncurrent assets	28,183,159	21,095,764	7,087,395	33.60
<b>Total Assets</b>	<b>411,366,849</b>	<b>398,436,734</b>	<b>12,930,115</b>	<b>3.25</b>
<b>Liabilities</b>				
Current liabilities	16,867,825	17,389,033	(521,208)	(3.00)
Noncurrent liabilities	23,402,426	22,253,786	1,148,640	5.16
<b>Total Liabilities</b>	<b>40,270,251</b>	<b>39,642,819</b>	<b>627,432</b>	<b>1.58</b>
<b>Net Assets</b>				
Investment in capital assets, net of related debt	310,050,818	298,610,218	11,440,600	3.83
Restricted-nonexpendable	22,182,994	18,431,198	3,751,796	20.36
Restricted-expendable	8,704,561	6,829,562	1,874,999	27.45
Unrestricted	30,158,225	34,922,937	(4,764,712)	(13.64)
<b>Total Net Assets</b>	<b>\$ 371,096,598</b>	<b>358,793,915</b>	<b>12,302,683</b>	<b>3.43</b>

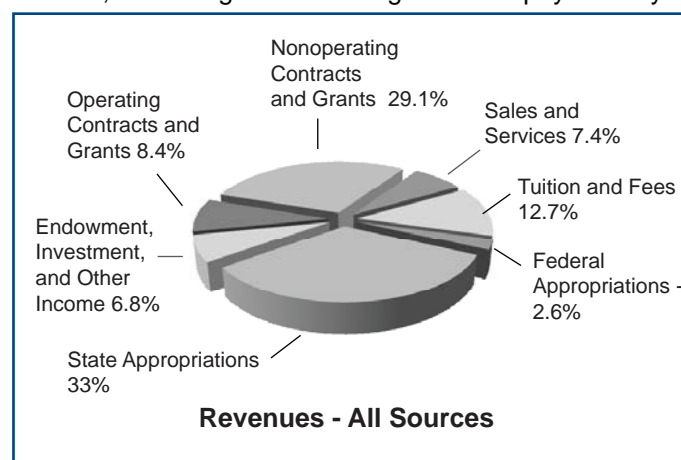
## Management's Discussion and Analysis

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 decreased by \$4,085,509. The decrease is primarily due to a decrease in cash and cash equivalents of \$2,678,363 and a decrease in the receivable from federal agencies of \$1,457,688. The University defeased bonds in 2011, utilizing available cash resources in the amount of \$2,126,961. In addition, there was a decrease of \$1,941,095 in the cash allowed by the Office of State Budget and Management to be carried over to the next fiscal year. These decreases in cash were offset by increases in Auxiliary cash in the Dining System that resulted from increased enrollment and new meal plans. The decrease in amounts due from federal agencies of \$1,457,688 was the result of changes implemented by the University in billing practices designed to expedite collections.

The increase in noncurrent assets of \$17,015,624 resulted from increases in restricted cash, capital assets, and Endowment investments. Restricted cash increased by \$1,439,399, primarily the result of additions to cash held for capital improvement projects. Buildings, equipment, and infrastructure capitalized during the year totaled \$33,244,192 and were off-set by a decrease in construction-in-progress of \$12,352,395 due to completion of a new classroom facility. Capitalized assets were also reduced by depreciation expense of \$10,771,027 and disposals net of depreciation. Endowment investments were increased by \$5,930,460, the result of purchases of investments with cash provided by \$3,055,764 in gifts and \$2,539,023 in market appreciation. Cash on hand at the beginning of the fiscal year provided the additional resources used to purchase Endowment investments.

The decrease of \$521,208 in current liabilities resulted from a decrease in accrued liabilities of \$2,109,473 and an increase in the liability to state component units of \$2,353,814. Changes in accrued liabilities were composed of decreases in accrued payroll and construction project liabilities netted against an increase in other liabilities. The University implemented a new payroll system during the 2011 fiscal year and as a result, made significant changes to the payment cycles of temporary employees causing the payroll liability to decrease by \$1,703,057 at June 30, 2011. Construction project liabilities decreased by \$2,931,126 as the number of outstanding projects decreased significantly in 2011. The decreases in payroll and construction project liabilities were off-set by the recognition of \$2,020,000 for potential litigation claims. The University also recorded a liability of \$2,353,814 to Gateway University Research Park, Inc., a component unit of the State, for costs associated with construction of the new facility for the Joint School of Nanoscience and Nanoengineering.



Noncurrent liabilities increased by \$1,148,640. The University issued a note in the amount of \$3,250,000 to fund construction costs on enhancements to the stadium. The addition of the note less the refunding of \$1,920,000 in Student Union revenue bonds comprise the majority of the decrease in noncurrent liabilities.

Net Assets increased by \$12,302,683 with changes in Investment in Plant making up the majority of that increase. The change in Investment in Plant of \$11,440,600 resulted primarily from defeasing bond principal of \$1,920,000 as well as the net increase of \$9,928,229 in capitalized assets. Restricted Nonexpendable

# Management's Discussion and Analysis

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

	2011	Restated 2010	Change	Percent
<b>Operating Revenues</b>				
Student tuition and fees	\$ 38,377,232	35,214,805	3,162,427	8.98
Grants and contracts	25,359,743	28,174,080	(2,814,337)	(9.99)
Federal appropriations	8,015,251	6,517,982	1,497,269	22.97
Sales and services	22,275,516	21,165,290	1,110,226	5.25
Other operating revenues	1,228,324	1,561,890	(333,566)	(21.36)
<b>Total Operating Revenues</b>	<b>95,256,066</b>	<b>92,634,047</b>	<b>2,622,019</b>	<b>5.85</b>
<b>Operating Expenses</b>				
Salaries and Benefits	157,995,935	151,169,936	6,825,999	4.52
Supplies and Materials	18,723,479	18,700,102	23,377	.13
Services	42,619,059	39,272,950	3,346,109	8.52
Scholarships and Fellowships	23,306,140	20,903,539	2,402,601	11.49
Utilities	6,068,721	5,565,273	503,448	9.05
Depreciation	10,771,027	10,042,060	728,967	7.26
<b>Total Operating Expenses</b>	<b>259,484,361</b>	<b>245,653,860</b>	<b>13,830,501</b>	<b>5.63</b>
<b>Operating Loss</b>	<b>(164,228,295)</b>	<b>(153,019,813)</b>	<b>(11,208,482)</b>	<b>7.32</b>
<b>Nonoperating Revenues (Expenses)</b>				
State appropriations	100,035,261	98,818,559	1,216,702	1.23
Noncapital gifts and grants	88,075,559	57,684,218	30,391,341	52.69
Grant to Gateway University Research Park	(29,980,250)	(10,184,267)	(19,795,983)	194.38
Interest and fees on debt	(776,126)	(1,038,134)	262,008	(25.24)
Investment income (loss)	3,325,542	2,222,111	1,103,431	49.66
Other nonoperating expenses	(323,791)	(234,623)	(89,168)	38.00
<b>Net Nonoperating Revenues (Expenses)</b>	<b>160,356,195</b>	<b>147,267,864</b>	<b>13,088,331</b>	<b>8.89</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(3,872,100)</b>	<b>(5,751,949)</b>	<b>1,879,849</b>	<b>(32.68)</b>
<b>Other Revenues</b>				
Capital appropriations and grants	13,119,019	5,133,704	7,985,315	155.55
Refund of prior years capital appropriations		(191,481)	191,481	(100.00)
Additions to permanent endowments	3,055,764	2,033,967	1,021,797	50.24
<b>Total Other Revenues</b>	<b>16,174,783</b>	<b>6,976,190</b>	<b>9,198,593</b>	<b>131.86</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>12,302,683</b>	<b>1,224,241</b>	<b>11,078,442</b>	<b>904.92</b>
<b>Net Asset</b>				
Beginning of the year	358,793,915	357,569,674	1,224,241	.34
End of the year	\$371,096,598	358,793,915	12,302,683	3.43

## Management's Discussion and Analysis

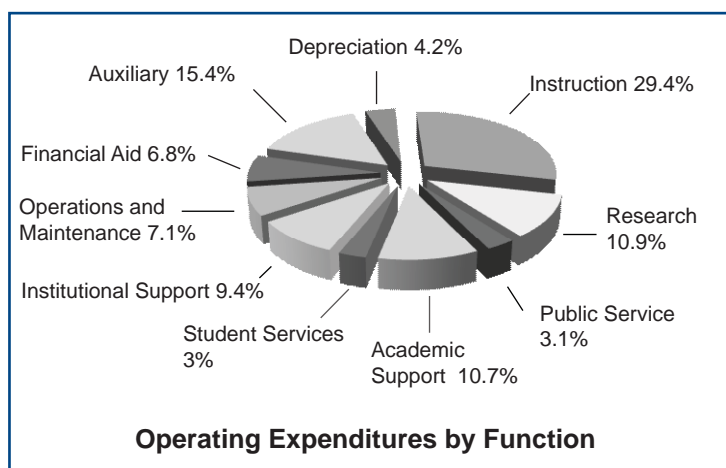
assets increased due to endowment gifts of \$3,055,763.67 as well as market appreciation of investments. Market appreciation and income earnings also made up most of the increase of \$1,874,999.51 in Restricted Expendable Net Assets. Unrestricted Net Assets decreased primarily from the litigation liability of \$2,020,000.00 and a decrease of \$1,941,094.98 in the cash allowed by the Office of State Budget and Management to be carried over to the next fiscal 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. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded. Beginning in 2011, revenues for all financial aid grants and gifts were shown separately in nonoperating revenues and expenses. In prior years only federal financial aid receipts were included in this category. In order to enhance comparability, 2010 has been restated.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in net assets at year-end of \$12,302,683. Highlights of the significant changes are as follows:

Operating revenues increased by \$2,622,020. While tuition and fees, sales and services and federal appropriations increased by \$5,769,922, contracts and grants decreased by \$2,814,336. Enrollment increases as well as increases in fees caused both tuition and fees and sales and services to increase in fiscal year 2011. In addition, changes in meal plans offered by the Dining System contributed to the increase in sales and services. Contract and grant revenues were unusually high in 2010 due to large awards from the Department of Defense and the National Science Foundation. The total contract and grant revenue of \$25,359,744 for 2011 is consistent with prior years. Federal appropriations for agriculture research and extension increased in 2011.



Operating expenditures increased by \$13,830,502, composed primarily of increases in salaries and benefits of \$6,826,000, services of \$3,346,109, and financial aid of \$2,402,601. Benefit expenses increased in

large part due to the increases in health care and retirement contributions that totaled \$2,554,808 and increased FICA contributions in the amount of \$471,968. The balance of the increase in salaries and benefits consisted primarily of new positions in the areas of housing, athletics, the Joint School of Nanoscience and Nanoengineering, the research facility in Kannapolis, and the Engineering Research Center. The increase in services was primarily due to significant increases in several areas. The University recorded an expense of \$2,020,000 for litigation liabilities. Food costs increased \$897,083 in large part due to increases in meal plan participation. The University incurred additional costs of \$675,054 to enhance campus security. Repair and renovation costs to several dorms totaled \$744,552 while enhancements made to the Engineering Research Center facility totaled \$904,771. The University paid \$638,190 for the transportation service shared with surrounding institutions. These increases were off-set by a significant decrease in subcontracted services of \$2,480,324, the result of the culmination of two large grants from the Department of Defense and the National Science Foundation. Increases in the 2011 Pell grant were the primary cause for the increase in financial aid.



# Management's Discussion and Analysis

The University experienced an increase in net nonoperating revenue of \$13,088,332. The State increased appropriations to the University by \$1,216,702. The additional appropriations 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 and the Joint School of Nanoscience and Nanotechnology. The increase in noncapital contracts and grants for financial aid of \$4,910,593 was composed primarily of an increase in Pell financial aid awards as well as an increase in state grants. Noncapital grants and gifts increased by \$25,480,748 with the state grant for the Joint School of Nanoscience making up \$23,693,511 of that increase. In addition, amounts paid to Gateway University Research Park, Inc. for the construction of the Joint School of Nanoscience and Nanoengineering facility increased during the year by \$19,795,982. The increase in other revenues of \$9,198,593 was due primarily to State grants received for construction of a general classroom building and for repairs and renovation of campus facilities.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 60.89% of operating expenses, followed by services at 16.42%, scholarships at 8.98%, supplies and materials at 7.22%, depreciation at 4.15%, and utility costs at 2.34%.

## ***Capital Assets and Debt Administration***

The University broke ground on a new box facility for the Aggie Stadium complex in 2011. The project will be complete during the 2012 fiscal year at a cost of approximately \$5 million. A note in the amount of \$3,250,000 was issued to provide advance funding for the project. Other projects underway during the year included the design phase for the Student Union renovation, a new College of Engineering building, and a new student health facility. During the 2011 fiscal year the University completed a new multi-disciplinary classroom and laboratory facility at a total cost of \$21,897,078.

At June 30, 2011, outstanding commitments on construction contracts totaled \$3,469,991. An additional \$18,465,527 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 revenue bond debt totaled \$12,090,000 at June 30, 2011. The University defeased \$1,920,000 in Student Union bonds using cash resources on hand, and made principal payments of \$835,000 on the remaining outstanding bonds. In addition, the University issued a long-term note of \$3,250,000 to partially fund the new Aggie Stadium box and it is anticipated that the University will issue long-term bonds to retire the notes payable obligation.

## ***Economic Forecast***

State support in fiscal year 2011 increased by only 1.23% and current national economic events continue to adversely impact State revenues. 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, 2011**

## Assets

### Current Assets

Cash and Cash Equivalents	\$ 36,916,182
Restricted Cash and Cash Equivalents	12,861,392
Receivables, Net (Note 4)	7,944,063
Due from University Component Units	15,646
Inventories	1,831,084
Notes Receivable (Note 4)	280,521
Total Current Assets	59,848,888

### Noncurrent Assets

Restricted Cash and Cash Equivalents	3,878,869
Receivables (Note 4)	78,146
Restricted Due from Primary Government	49,236
Endowment Investments (Note 2)	23,365,013
Other Investments (Note 2)	1,476
Notes Receivable, Net (Note 4)	810,418
Capital Assets — Nondepreciable (Note 5)	15,207,583
Capital Assets — Depreciable, Net (Note 5)	308,127,219
Total Noncurrent Assets	351,517,961

### Total Assets

**411,366,849**

## Liabilities

### Current Liabilities

Accounts Payable and Accrued Liabilities (Note 6)	9,055,793
Due to Primary Government	76,906
Due to State of North Carolina Component Unit	2,353,814
Unearned Revenue	3,301,725
Interest Payable	134,783
Long-Term Liabilities — Current Portion (Note 7)	1,944,803
Total Current Liabilities	16,867,825

### Noncurrent Liabilities

Funds Held for Others	128,160
US Government Grants Refundable	1,137,935
Long-Term Liabilities (Note 7)	22,136,330
Total Noncurrent Liabilities	23,402,426

### Total Liabilities

**40,270,251**

## Net Assets

Invested in Capital Assets, Net of Related Debt	310,050,818
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	11,086,683
Endowed Professorships	10,512,787
Departmental Uses	331,091
Loans	252,433
Expendable:	
Scholarships and Fellowships	2,569,246
Research	272,871
Endowed Professorships	1,677,269
Departmental Uses	4,185,175
Unrestricted	30,158,225
Total Net Assets	<b>\$371,096,598</b>

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, 2011

### Operating Revenues

Student Tuition and Fees, Net (Note 9)	\$ 38,377,232
Federal Appropriations	8,015,251
Federal Grants and Contracts	23,361,958
State and Local Grants and Contracts	1,065,056
Nongovernmental Grants and Contracts	932,729
Sales and Services, Net (Note 9)	22,275,516
Interest Earnings on Loans	12,487
Other Operating Revenues	1,215,837
Total Operating Revenues	<u>95,256,066</u>

### Operating Expenses

Salaries and Benefits	157,995,935
Supplies and Materials	18,723,479
Services	42,619,059
Scholarships and Fellowships	23,306,140
Utilities	6,068,721
Depreciation	10,771,027
Total Operating Expenses	<u>259,484,361</u>

### Operating Loss

(164,228,295)

### Nonoperating Revenues (Expenses)

State Appropriations	100,035,261
Noncapital Grants - Federal Student Financial Aid	43,541,001
Other Noncapital Grants	43,366,944
Noncapital Gifts	1,167,614
Investment Income	3,325,542
Interest and Fees on Debt	(776,126)
Grant to Gateway University Research Park	(29,980,250)
Other Nonoperating Expense	(323,791)
Net Nonoperating Revenues	<u>160,356,195</u>

### Income Before Other Revenues and Expenses

(3,872,100)

Capital Grants	13,119,019
Additions to Permanent Endowments	3,055,764

### Increase in Net Assets

12,302,683

### Net Assets

Net Assets — July 1, 2010	<u>358,793,915</u>
Net Assets — June 30, 2011	<u><b>\$371,096,598</b></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, 2011

### Cash Flows from Operating Activities

Received from Customers	\$ 94,186,669
Payments to Employees and Fringe Benefits	(159,698,993)
Payments to Vendors and Suppliers	(64,168,840)
Payments for Scholarships and Fellowships	(23,330,840)
Loans Issued	(148,295)
Collection of Loans	302,767
Interest Earned on Loans	4,536
Other Receipts	1,215,837
Net Cash Used by Operating Activities	<u>(151,637,159)</u>

### Cash Flows from Noncapital Financing Activities

State Appropriations	100,035,261
Noncapital Grants - Federal Student Financial Aid	43,684,631
Noncapital Grants	43,656,087
Noncapital Gifts	1,167,598
Additions to Endowments	3,055,764
William D. Ford Direct Lending Receipts	64,412,681
William D. Ford Direct Lending Disbursements	(64,412,861)
Related Activity Agency Receipts	48,642
Related Activity Agency Disbursements	(16,683)
Grant to Gateway University Research Park, Inc.	(31,074,232)
Net Cash Provided by Noncapital Financing Activities	<u>160,557,068</u>

### Cash Flows from Capital and Related Financing Activities

Proceeds from Capital Debt	3,250,000
Capital Grants	13,289,091
Acquisition and Construction of Capital Assets	(20,562,019)
Principal Paid on Capital Debt	(2,755,000)
Interest and Fees Paid on Capital Debt	(788,221)
Net Cash Used by Capital and Related Financing Activities	<u>(7,566,149)</u>

### Cash Flows from Investing Activities

Proceeds from Sales and Maturities of Investments	61,116
Investment Income	798,712
Purchase of Investments and Related Fees	(3,452,553)
Net Cash Used by Investing Activities	<u>(2,592,725)</u>

Net Decrease in Cash and Cash Equivalents	(1,238,965)
Cash and Cash Equivalents — July 1, 2010	<u>54,895,408</u>

<b>Cash and Cash Equivalents — June 30, 2011</b>	<b><u><u>\$ 53,656,443</u></u></b>
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# Statement of Cash Flows

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

Operating Loss	\$ (164,228,296)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	10,771,027
Changes in Assets and Liabilities	
Receivables, Net	270,952
Due from University Component Units	(5,400)
Inventories	195,567
Notes Receivable, Net	154,472
Accounts Payable and Accrued Liabilities	831,014
Due to Primary Government	(7,554)
Unearned Revenue	(114,576)
Compensated Absences	495,635
Net Cash Used by Operating Activities	<u><u>\$ (151,637,159)</u></u>

## Reconciliation of Cash and Cash Equivalent Balances

Current Assets	
Cash and Cash Equivalents	\$ 36,916,182
Restricted Cash and Cash Equivalents	12,861,392
Noncurrent Assets	
Restricted Cash and Cash Equivalents	<u>3,878,869</u>
<b>Total Cash and Cash Equivalents — June 30, 2011</b>	<u><u>\$ 53,656,443</u></u>

## Noncash Investing, Capital, and Financing Activities

Change in Fair Value of Investments	2,539,023
Reinvestment Distributions	270,337
Loss on Disposal of Capital Assets	(323,791)

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, 2011

<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 2,080,357
Investments	4,518,273
Unconditional Promises to Give, Net	183,757
Accounts Receivable-NCA&TSU	93,225
Other Current Assets	438,918
Total Current Assets	<u>7,314,530</u>
<b>Restricted Deposits</b>	
Bond Operating Reserve Fund	500,000
Bond Interest Fund	80,538
Bond Surplus Fund	1,348,724
Bond Repair and Replacement Fund	96,023
Bond Debt Service Fund	3,128,704
Total Restricted Deposits	<u>5,153,989</u>
Endowment Investments	<u>4,192,488</u>
Property, Furniture and Equipment, at Cost, Net	33,809,737
Long-Term Unconditional Promises to Give, Net	3,946
Other Assets	<u>3,506,549</u>
<b>Total Assets</b>	<b><u>\$ 53,981,239</u></b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Current Maturities of Bonds Payable	1,210,000
Accounts Payable	167,585
Other Liabilities	389,842
Total Current Liabilities	<u>1,767,427</u>
<b>Long-Term Liabilities</b>	
Bonds payable, less current maturities	<u>42,055,000</u>
<b>Total Liabilities</b>	<b><u>43,822,427</u></b>
<b>Net Assets</b>	
Unrestricted:	
Operating	1,370,654
Fixed assets	101,004
Total Unrestricted (Deficit)	<u>1,471,658</u>
Temporarily restricted	4,391,566
Permanently restricted	4,295,588
<b>Total Net Assets</b>	<b><u>10,158,812</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 53,981,239</u></b>

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, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support, Revenues and Reclassifications</b>				
Contributions:				
Foundations and corporations	\$ 51,459	817,815	9,321	878,595
Board of Directors	10,350	4,280	2,800	17,430
Individuals/Friends	3,175	893,662	57,995	954,832
Interest and dividends	133,021	186,124	10,252	329,397
Administrative fees	95,945	9,212	—	105,157
Miscellaneous	985	741,570	—	62,558
Unrealized and realized gain (loss) on investments	441,168	741,570	19,834	1,202,562
Satisfaction of program restrictions	1,877,854	(1,877,854)	—	—
Rental income	7,260,445	—	—	7,260,445
Management fees	313,104	—	—	313,104
Fundraising	142,833	—	—	142,833
<b>Total Public Support, Revenues and Reclassifications</b>	<b>10,330,329</b>	<b>836,382</b>	<b>100,202</b>	<b>11,266,913</b>
<b>Expenses</b>				
Scholarships — unrestricted	97,393	—	—	97,393
Scholarships — departmental	660,774	—	—	660,774
<b>Total Scholarships</b>	<b>758,167</b>	<b>—</b>	<b>—</b>	<b>758,167</b>
Academic departmental programs	1,217,080	—	—	1,217,080
Administration	830,939	—	—	830,939
Student housing	6,018,859	—	—	6,018,859
Transfer to NCA&TSU and promises to give writeoffs	—	—	53,555	53,555
<b>Total Expenses</b>	<b>8,066,878</b>	<b>—</b>	<b>53,555</b>	<b>8,120,433</b>
<b>Change in Net Assets</b>	<b>1,505,284</b>	<b>836,382</b>	<b>46,647</b>	<b>2,388,313</b>
Net Assets as of the Beginning of the Year	(33,626)	3,555,184	4,248,941	7,770,499
<b>Net assets as of the     End of the Year</b>	<b>\$ 1,471,658</b>	<b>4,391,566</b>	<b>4,295,588</b>	<b>10,158,812</b>

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 are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

***Discretely Presented Component Unit*** — The North Carolina 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 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, 2011, the Foundation distributed \$963,377 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from North Carolina A&T University Foundation, Inc., 200 North Benbow Road, Greensboro, NC 27411.

### 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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

## **E. Investments**

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

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

## **F. Receivables**

Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

# 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 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. 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 donation. These collections are considered inexhaustible and are therefore not depreciated.

## **I. Restricted Assets**

Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and 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, notes 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 refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refunds 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, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

## **Note 2 — Deposits and Investments**

### **A. Deposits**

Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. 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 with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$53,472,160 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

## Notes to the Financial Statements

credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2011 was \$54,814. The carrying amount of the University's deposits not with the State Treasurer was \$129,469 and the bank balance was \$128,307. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2011, the University's bank balance was not exposed to custodial credit risk as each depositor is now insured for up to \$250,000.

### **B. Investments**

**University** – The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds 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 that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

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

Investments of the University's component unit, The North Carolina A&T University Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks:

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

## Notes to the Financial Statements

**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 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, 2011, for the Long-Term Investment Pool.

Investment Type	Fair Value	Investment Maturities	
		Under 1 Year	1 to 5 Years
Debt Securities			
Debt Mutual Funds	\$ 1,636,722		1,636,722
Money Market Mutual Funds	27,590	27,590	
Other Securities			
UNC Investment Fund	17,090,339		
Equity Mutual Funds	1,790,132		
Domestic Stocks	2,808,540		
Real Estate	11,690		
Total Long-Term Investment Pool	<u>\$23,365,013</u>		

At June 30, 2011, investments in the Long Term Investment Pool had the following credit quality distribution for securities with credit exposure:

Investment Type	Fair Value	AAA	Unrated
		Aaa	
Debt Mutual Fund	\$1,636,722	\$1,636,722	
Money Market Mutual Fund	27,590		\$ 27,590

At June 30, 2011, investments in the Long-Term Investment Pool were not exposed to custodial credit risk.



## Notes to the Financial Statements

**UNC Investment Fund, LLC** – At June 30, 2011, the University’s investments include \$17,090,339 which represents the University’s equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** – At year end, the University held domestic stocks with a fair value of \$1,476.

**Total Investments** - The following table presents the fair value of total investments at June 30, 2011:

Investment Type	Fair Value
Debt Securities	
Debt Mutual Funds	\$ 1,636,722
Money Market Mutual Funds	27,590
Other Securities	
UNC Investment Fund	17,090,339
Other Mutual Funds	1,790,132
Investment in Real Estate	11,690
Domestic Stocks	<u>2,810,016</u>
Total Investments	<u>\$23,366,489</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 \$8,697,994 and stock in the amount of \$12,767. The total amount of investments for the North Carolina A&T University Foundation, Inc., is \$8,710,761.



### C. Reconciliation of Deposits and Investments

A reconciliation of deposits and investments for the University of June 30, 2011, is as follows:

Cash on Hand	\$ 54,814
Amount of Deposits with Private Financial Institutions	129,469
Deposits in the Short Term Investment Fund	53,472,160
Long-Term Investment Pool	23,365,013
Non-pooled Investments	<u>1,476</u>
Total Deposits and Investments	<u>77,022,932</u>
Cash and Cash Equivalents	
Current:	
Cash and Cash Equivalents	36,916,182
Restricted Cash and Cash Equivalents	12,861,392
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>3,878,869</u>
Total Deposits	<u>53,656,443</u>
Investments	
Noncurrent:	
Endowment Investments	23,365,013
Other Investments	<u>1,476</u>
Total Investments	<u>\$23,366,489</u>

### Note 3 — Endowment Investments

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

## Notes to the Financial Statements

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, 2011, endowment net assets of \$2,416,280 were available to be spent, of which \$2,416,280 was restricted to specific purposes.

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, 2011 the amount of investment losses reported against the nonexpendable endowment balances were \$196,683. 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, 2011, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables			
Students	\$ 563,983	527,309	36,674
Accounts	867,422	38,056	829,366
Intergovernmental	6,265,227	—	6,265,227
Pledges	68,000	—	68,000
Investment earnings	45,978	—	45,978
Interest on loans	148,829	—	148,829
Other	549,989	—	549,989
Total Current Receivables	<u>\$ 8,509,428</u>	<u>565,365</u>	<u>7,944,063</u>
Noncurrent Receivables			
Pledges	<u>\$ 78,146</u>	<u>—</u>	<u>78,146</u>
Notes Receivable			
Notes receivable-current			
Federal loan program	<u>\$ 280,521</u>	<u>—</u>	<u>280,521</u>
Notes receivable-noncurrent			
Federal loan program	<u>\$ 1,462,953</u>	<u>652,535</u>	<u>810,418</u>

## Note 5 — Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1	Increases	Decreases	Balance June 30
Capital Assets, Non-Depreciable:				
Land	\$ 9,552,063	131,250	—	9,683,313
Art, Literature and Artifacts	2,502,077	—	—	2,502,077
Construction in Progress	12,368,545	3,006,043	12,352,395	3,022,193
<b>Total Capital Assets, Non-Depreciable</b>	<b>24,422,685</b>	<b>3,137,293</b>	<b>12,352,395</b>	<b>15,207,583</b>
Capital Assets, Depreciable:				
Buildings	321,280,647	23,186,899	—	344,467,546
Machinery and Equipment	50,857,652	5,796,529	1,141,566	55,512,615
General Infrastructure	17,718,226	1,254,721	—	18,972,947
<b>Total Capital Assets Depreciable</b>	<b>389,856,525</b>	<b>30,238,149</b>	<b>1,141,566</b>	<b>418,953,108</b>
Less Accumulated Depreciation				
Buildings	74,836,729	6,950,729	—	81,787,458
Machinery and Equipment	21,811,418	3,218,986	817,775	24,212,629
General Infrastructure	4,224,490	601,312	—	4,825,802
<b>Total Accumulated Depreciation</b>	<b>100,872,637</b>	<b>10,771,027</b>	<b>817,775</b>	<b>110,825,889</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>288,983,888</b>	<b>19,467,122</b>	<b>323,791</b>	<b>308,127,219</b>
<b>Capital Assets, Net</b>	<b>\$ 313,406,573</b>	<b>22,604,415</b>	<b>12,676,186</b>	<b>323,334,802</b>

## Note 6 — Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts payable	\$5,539,242
Accrued payroll	1,086,036
Contract retainage	2,253,956
Intergovernmental payables	176,559
<b>Total accounts payable and accrued liabilities</b>	<b>\$9,055,793</b>

# 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, 2011 is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Bonds payable	\$14,845,000	—	2,755,000	12,090,000	875,000
Add/deduct premium/discount	360,496	—	69,685	290,811	—
Deduct deferred charge on refunding	(409,141)	—	(89,348)	(319,793)	—
Total bonds payable	14,796,355	—	2,735,337	12,061,018	875,000
Notes Payable	—	3,250,000	—	3,250,000	120,000
Compensated absences	8,274,480	5,977,385	5,481,750	8,770,115	949,803
Total long-term liabilities	\$23,070,835	9,227,385	8,217,087	24,081,133	1,944,803

### B. Revenue 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 6/30/11	Principal Outstanding 6/30/11	See Table Below
<b>UNC System Pool</b>							
Parking System (A)	1998B	3.25-5.25	10/1/2013	\$ 1,465,000	1,090,000	375,000	(1)
Stadium System (B)	2000	5.00-5.75	10/1/2012	1,555,000	1,205,000	350,000	(2)
Parking Deck (D)	2006B	3.75-5.00	10/1/2033	5,965,000	390,000	5,575,000	
Dining System (D)	2006B	3.75-5.00	10/1/2020	7,525,000	1,735,000	5,790,000	
Total Bonds Payable (Principal Only)				\$16,510,000	4,060,000	12,090,000	
Less Unamortized Loss on Refunding						(319,793)	
Less Unamortized Discount						(1,234)	
Plus Unamortized Premium						292,045	
						12,061,018	

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

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

(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	405,056	682,408	115,000	20,945	20%
(2)	Stadium System	369,775	261,756	160,000	20,850	69%

### C. Annual Requirements

The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011 are as follows:

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2012	\$ 875,000	520,031	120,000	85,492
2013	910,000	480,375	124,000	82,222
2014	775,000	443,506	128,000	78,845
2015	660,000	413,994	132,000	75,362
2016	690,000	386,994	2,746,000	36,796
2017-2021	3,895,000	1,475,638		
2022-2026	1,000,000	926,834		
2027-2031	1,840,000	602,075		
2032-2036	1,445,000	108,850		
Total Requirements	\$12,090,000	5,358,297	3,250,000	358,717

### D. Prior Year Defeasances

On September 8, 2010, the University used cash on hand to advance refund \$1,920,000 of outstanding Student Union Series 2005A Bonds with an average rate of interest of 4.769%. Funds in the amount of \$2,126,961 were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$2,154,850 over the next four years and resulted in an economic gain of \$27,888.

# Notes to the Financial Statements

## E. Notes Payable

The University was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Stadium Press Box	RBC	2.68%	12/15/2015	\$3,250,000	0	3,250,000

## F. Component Unit

At June 30, 2011 The North Carolina A&T University Foundation, Inc. had \$43,265,000 of outstanding bonds payable. These bonds, Series 2004A and Series 2004B, were issued on August 10, 2004, for \$29,250,000 and \$21,000,000 respectively. The 2004A Bonds were issued primarily to refund the Foundation's outstanding 2001 Bonds. The 2004B bonds were issued primarily to finance the construction, equipping and installation of student housing, a fitness facility and a conference and special events facility.

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$50,673. This difference, net of accumulated amortization of \$1,321 is reported in the Foundation's financial statements as a deduction from bonds payable. Such amount is charged to operations using the straight-line method over the life of the bonds through the year 2035. Bond issuance costs and bond discount of \$3,914,439 associated with the advance refunding are charged to operations using the straight-line method through the year 2035. Accumulated amortization of these bonds issuance costs was \$924,005 at June 30, 2011.

The Series 2004A and 2004B Bonds consisted of \$50,250,000 of serial bonds issued at interest rates ranging from 3% to 5%, maturing in progressively larger annual amounts ranging from \$800,000 on June 1, 2005 to \$1,170,000 on June 1, 2035. Semi-annual interest payments on the Series 2004A and 2004B Bonds are due December 1 and June 1, and annual principal payments are due June 1.

A summary of the maturities of the bonds payable at June 30, 2011 is detailed as follows:

<u>Year Ending</u>	<u>Principal</u>
2012	\$ 1,210,000
2013	1,255,000
2014	1,310,000
2015	1,360,000
2016	1,415,000
Thereafter	36,715,000
	<u>\$43,265,000</u>

# 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, 2011:

Fiscal Year	Amount
2012	\$ 137,274
2013	59,359
2014	<u>9,648</u>
Total Minimum Lease Payments	<u>\$ 206,281</u>

Rental expense for all operating leases during the year was \$548,210.

## 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	\$ 64,112,844	—	25,331,577	404,035	38,377,232
Sales and services:					
Residential life	\$ 10,112,153	—	3,741,904	81,348	6,288,901
Dining	10,835,549	—	4,190,780	88,899	6,555,870
Student Union	22,538	—	—	—	22,538
Health, Physical Education, and Recreation Services	145,612	—	—	—	145,612
Bookstore	5,582,505	195,989	—	17	5,386,499
Parking	1,344,927	—	—	(19,989)	1,364,916
Athletic	2,119,647	—	—	—	2,119,647
Other	277,373	—	—	—	277,373
Sales and services of educational and related activities	<u>2,170,038</u>	<u>2,055,878</u>	<u>—</u>	<u>—</u>	<u>114,160</u>
Total sales and services	<u>\$ 32,610,342</u>	<u>2,251,867</u>	<u>7,932,684</u>	<u>150,275</u>	<u>22,275,516</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	\$ 72,369,278	1,915,047	1,674,405	203,645	5,655	—	76,168,030
Research	18,322,634	1,580,278	7,116,000	1,368,642	547	—	28,388,101
Public Service	4,759,956	696,159	2,059,869	245,419	377,852	—	8,139,255
Academic Support	16,414,053	5,097,786	5,109,594	1,077,713	—	—	27,699,146
Student Services	6,323,754	311,677	984,348	36,743	—	—	7,656,522
Institutional Support	16,491,681	633,168	7,050,529	246,993	3,583	—	24,425,954
Operations and Maintenance of Plant	9,454,223	2,556,916	2,534,715	—	4,002,466	—	18,548,320
Student Financial Aid	286,456	25,325	59,495	17,171,548	—	—	17,542,824
Auxiliary Enterprises	13,573,900	5,907,123	16,030,104	2,955,437	1,678,618	—	40,145,182
Depreciation	—	—	—	—	—	10,771,027	10,771,027
<b>Total</b>	<b>\$ 157,995,935</b>	<b>18,723,479</b>	<b>42,619,059</b>	<b>23,306,140</b>	<b>6,068,721</b>	<b>10,771,027</b>	<b>259,484,361</b>

## Note 11 — Pension Plans

### A. Retirement Plans

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

The Teachers' and State Employees' Retirement System 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$126,338,325, of which \$72,349,431 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$3,566,827 and \$4,340,966, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$3,566,827, \$2,523,015, and \$2,263,691, 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.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.

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, 2011, 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 \$126,338,325, of which \$35,004,820, was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,394,330, and \$2,100,289, 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, 2011, covered payroll was \$414,489, and total employer and employee contributions were \$29,014 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 \$234,744 for the year ended June 30, 2011.

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

## Notes to the Financial Statements

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, 2011, were \$26,039. The voluntary contributions by employees amounted to \$605,046 for the year ended June 30, 2011.

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 \$1,141,591 for the year ended June 30, 2011.

### 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 *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the University contributed 4.9% 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, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$5,260,358, \$4,748,108, and \$4,298,029, 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

# Notes to the Financial Statements

*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 "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$558,242, \$548,670, and \$545,116, 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 the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 deductible per occurrence.

Receipts-supported auxiliary units purchase extended or broad form coverage through the Fund. The University Bookstore purchased broad form coverage on contents only in the amount of \$2,425,000 while the Student Union and Cafeteria purchased extended coverage on buildings and contents in the amount of

## Notes to the Financial Statements

\$20,316,238 and \$25,031,390, respectively. Residence halls purchased broad form coverage on buildings and contents in the amount of \$150,389,754. The Hazardous Material and Campus Recreation buildings purchased broad form coverage for buildings and contents in the amounts of \$2,304,576 and \$7,182,867 respectively. Losses covered for each of these buildings is subject to a \$5,000 deductible per occurrence.

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

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

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

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for 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 \$3,469,991 and on other purchases were \$9,874,777 at June 30, 2011.

#### B. Commitment to Gateway University Research Park, Inc.

The University has established a commitment to Gateway University Research Park, Inc. in the amount of \$18,465,527 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

## C. Pending Litigation and Claims

The University is party to legal actions and a potential legal action with probable liabilities to the University totaling \$2,020,000. This amount is reflected in the Accounts Payable Accrual in the Financial Statements.

The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. 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.

## 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:

<u>Purpose</u>	<u>Amount</u>
Pledges to Endowments	<u>\$2,006,171</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 2011-2012 fiscal year, the University made payments and incurred additional liabilities totaling \$33,428,046 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 — Subsequent Events

On December 7, 2011, the University issued tax-exempt bonds in the amount of \$3,625,000 in order to refund Series 1998B and Series 2000 bonds, as well as to refund interim financing for the construction of a stadium press box. The borrowing was through the University of North Carolina System Pool Revenue Bonds, Series 2011C. The bonds will be repaid over twenty years, maturing in 2031. Interest on the bonds ranges from 2 percent to 4.5 percent. The bond proceeds of \$3,571,541 were net of a premium of \$17,720 and \$71,179 in issuance costs. The University used \$3,131,398 in proceeds to refund interim financing of \$3,130,000. Proceeds in the amount of \$257,901 and \$182,243 were used to fund escrow accounts set up for the defeasance of Series 1998B bonds and Series 2000 bonds, respectively. The University will refund \$255,000 of Series 1998B bonds and \$180,000 of Series 2000 bonds and recognize an economic gain of \$13,821 on both issues.