

North Carolina Agricultural and Technical State University

2012 Financial Report



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Letter of Transmittal

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, 2012. 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 2012 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, 2012.

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, 2012

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

University Officers at June 30, 2012

General Administration:

Harold L. Martin, Sr.	Chancellor
Winser E. Alexander (Interim)	Provost and Vice Chancellor for Academic Affairs
Robert Pompey, Jr.	Vice Chancellor for Business and Finance
Linda R. McAbee	Vice Chancellor for Human Resources
Celestine A. Ntuen (Interim)	Vice Chancellor for Research and Economic Development
Melody C. Pierce	Vice Chancellor for Student Affairs
Robert Pompey, Jr. (Interim)	Vice Chancellor for University Advancement
Barbara J. Ellis	Vice Chancellor for Information Technology and Telecommunications
Deborah J. Calloway	Special Assistant to the Chancellor
J. Charles Waldrup	Special Assistant to the Chancellor for Legal Affairs
Earl M. Hilton, III	Director of Athletics

Academic Deans:

Goldie Byrd	College of Arts and Sciences
Robin Coger-Simmons	College of Engineering
William Randle	School of Agriculture and Environmental Sciences
Quiester Craig	School of Business and Economics
William B. Harvey	School of Education
Sanjiv Sarin	School of Graduate Studies
Inez Tuck	School of Nursing
Benjamin O. Uwakweh	School of Technology
James Ryan	Joint School of Nanoscience and Nanoengineering
Vicki Coleman	Library Services

Management's Discussion and Analysis

Introduction

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

The Financial Statements

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

The Statement of Net Assets

The Statement of Net Assets summarizes and provides insight into the financial position of the University at June 30, 2012. It presents the financial position as defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are held to meet

Condensed Statement of Net Assets

	2012	2011	Change	Percent
Assets				
Current Assets	\$ 51,057,125	59,848,888	(8,791,763)	(14.69)
Noncurrent Capital Assets, net of Accumulated Depreciation	325,316,403	323,334,802	1,981,601	.61
Other Noncurrent Assets	32,085,655	28,183,159	3,902,496	13.85
Total Assets	408,459,183	411,366,849	(2,907,666)	(.71)
Liabilities				
Current Liabilities	11,290,438	16,867,825	(5,577,387)	(33.07)
Noncurrent Liabilities	23,178,788	23,402,426	(223,638)	(.96)
Total Liabilities	34,469,226	40,270,251	(5,801,025)	(14.41)
Net Assets				
Investment in Capital Assets, Net of Related Debt	310,894,259	310,050,818	843,441	.27
Restricted-Nonexpendable	24,951,896	22,182,994	2,768,902	12.48
Restricted-Expendable	9,631,603	8,704,561	927,042	10.65
Unrestricted	28,512,199	30,158,225	(1,646,026)	(5.46)
Total Net Assets	\$ 373,989,957	371,096,598	2,893,359	.78

Management's Discussion and Analysis

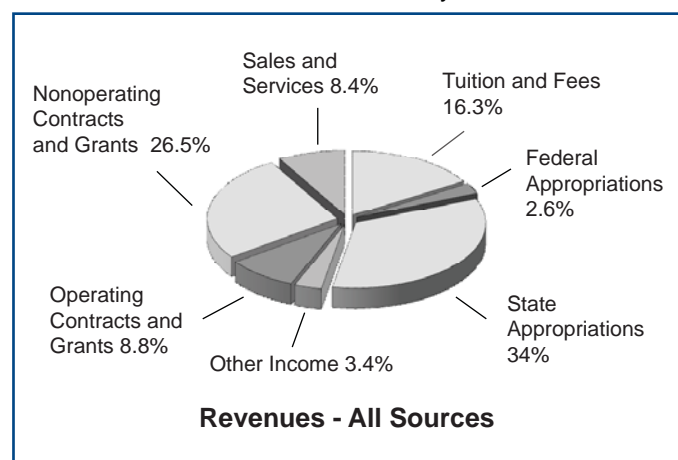
future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: investment in capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as nonexpendable or expendable. Endowments and loan funds comprise the nonexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

The overall decrease in current assets by \$8,791,763 is attributable to several factors: current restricted cash decreased by \$2,588,032, due in large part to the timing of the drawdown of receipts for two large recurring federal grants; expenditures for capital improvements as well as facility maintenance decreased current cash by \$5,889,872; there was a decrease of \$479,690 in the cash allowed by the Office of State Budget and Management to be carried forward to the next fiscal year, and cash held by the Auxiliary housing system decreased by \$3,138,403, a result of additional expenditures primarily for security and maintenance. These decreases in cash were partially offset by an increase in receivables in the amount of \$3,972,770, a large portion of which was due from the timing of the drawdown for the two large federal grants.

The net increase in noncurrent assets of \$5,884,097 resulted from increases in capital assets and endowment investments. Assets capitalized during the year totaled \$13,612,041. Capitalized assets were decreased by depreciation expense of \$11,177,716 and disposals net of depreciation of \$452,723. Endowment investments were increased by \$3,887,424, the result of purchases of investments with cash provided by additional gifts of \$2,682,330 and market appreciation

The decrease of \$5,577,387 in current liabilities resulted primarily from decreases in accounts payable of \$4,074,653, due to a decrease of \$2,109,539 in accounts payable for capital improvements and \$1,500,000 in litigation liabilities, as cases have been settled. Also the State grant for Gateway University Research Park was closed out during the year, further reducing current liabilities by \$2,353,814. There was an offsetting increase in unearned revenue of \$1,148,577 which was primarily attributable to deferred federal contracts and grants revenue.

Noncurrent liabilities remained fairly constant at \$23,178,788, with a decrease from the prior year of



\$223,638. However, the University participated in the University of North Carolina System Pool Revenue Bonds, Series 2011C, for a total amount of \$3,625,000. The proceeds were used to pay off the \$3,130,000 balance of the bond anticipation note issued in 2011 and to refund Series 1998B bonds of \$255,000 and Series 2000 bonds of \$180,000.

Net Assets increased by \$2,893,359 with changes in restricted nonexpendable assets making up the majority of that increase. The increase in nonexpendable assets is made up primarily of endowment gifts for scholarships and professorships in the amount of 2,682,330. The change in Investment in Plant of \$843,441

resulted from the net increase of \$1,981,602 capital assets, offset by an increase in debt of \$1,138,161. These increases were offset by a decrease of \$1,646,026 in unrestricted net assets, caused primarily by increases in housing system expenditures.

Management's Discussion and Analysis

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

	2012	2011	Change	Percent
Operating Revenues				
Student Tuition and Fees	\$ 45,034,536	38,377,232	6,657,304	17.35
Grants and Contracts	24,394,231	25,359,743	(965,512)	(3.81)
Federal Appropriations	7,184,767	8,015,251	(830,484)	(10.36)
Sales and Services	23,276,361	22,275,516	1,000,845	4.49
Other Operating Revenues	1,662,244	1,228,324	433,920	35.33
Total Operating Revenues	101,552,139	95,256,066	6,296,073	6.61
Operating Expenses				
Salaries and Benefits	156,312,066	157,995,935	(1,683,869)	(1.07)
Supplies and Materials	19,154,910	18,723,479	431,431	2.30
Services	42,379,509	42,619,059	(239,550)	(.56)
Scholarships and Fellowships	20,242,096	23,306,140	(3,064,044)	(13.15)
Utilities	5,249,842	6,068,721	(818,879)	(13.49)
Depreciation	11,177,716	10,771,027	406,689	3.78
Total Operating Expenses	254,516,139	259,484,361	(4,968,222)	(1.91)
Operating Loss	(152,964,000)	(164,228,295)	11,264,295	(6.86)
Nonoperating Revenues (Expenses)				
State Appropriations	94,181,746	100,035,261	(5,853,515)	(5.85)
Noncapital Gifts and Grants	73,549,750	88,075,559	(14,525,809)	(16.49)
Grant to Gateway University Research Park	(18,465,527)	(29,980,250)	11,514,723	38.41
Interest and Fees on Debt	(716,047)	(776,126)	60,079	7.74
Investment Income	1,275,540	3,325,542	(2,050,002)	(61.64)
Other Nonoperating Expenses	(452,723)	(323,791)	(128,932)	(39.82)
Net Nonoperating Revenues (Expenses)	149,372,739	160,356,195	(10,983,456)	(6.85)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,591,261)	(3,872,100)	280,839	7.25
Other Revenues				
Capital Grants	2,758,702	13,119,019	(10,360,317)	(78.97)
Capital Gifts	1,043,588	—	1,043,588	
Additions to Permanent Endowments	2,682,330	3,055,764	(373,434)	(12.22)
Total Other Revenues	6,484,620	16,174,783	(9,690,163)	(59.91)
Total Increase (Decrease) in Net Assets	2,893,359	12,302,683	(9,409,324)	(76.48)
Net Asset				
Beginning of the Year	371,096,598	358,793,915	12,302,683	3.43
End of the Year	\$ 373,989,957	371,096,598	2,893,359	.78

Management's Discussion and Analysis

Statement of Revenues, Expenses, and Changes in Net Assets

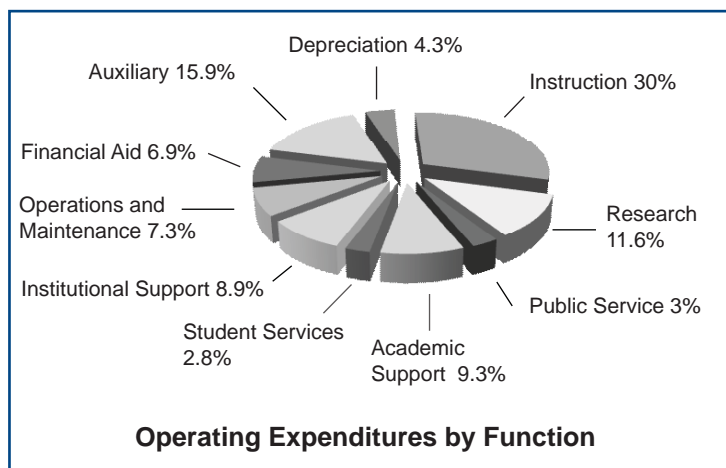
The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues (expenses), and other revenues, expenses, gains or losses. Revenues are reported 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.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an overall increase in net assets at year-end of \$2,893,360. Highlights of the significant changes are as follows:

Operating revenues increased in total by \$6,296,073. Tuition and Fees increased by \$6,657,305 and Sales and Services increased by \$1,000,845. Both increased due to higher enrollment and a general increase in fees associated with the cost of attending college. The decreases in contract and grant revenue of \$965,513 as well as the decrease in federal appropriations of \$830,484 were the result of reductions in federal funding

Operating expenditures decreased by \$4,968,222 in large part to decreases in salaries and benefits, scholarships and fellowships and utility costs. Salaries and Benefits decreased by \$1,683,869 due to reductions in the workforce. Scholarships and Fellowships decreased by \$3,064,044 largely due to cuts in educational grants received from both federal and state governments. Also, utility costs decreased by \$818,879 due to the continued implementation of energy efficient practices and a relatively mild winter.

The University experienced a significant decrease in net nonoperating revenue of \$10,983,457. The



State decreased appropriations to the University by \$5,853,515. The decrease in noncapital contracts and grants for financial aid of \$7,115,982 was composed primarily of decrease in State and federal financial aid grants including Pell grants. Noncapital grants and gifts decreased by \$7,409,828 due primarily to a decrease of \$9,160,908 in the State grant for the Joint School of Nanoscience and Nanoengineering facility. The decrease was offset by increases in federal funding for Title III grants. In addition, amounts paid to Gateway University Research Park, Inc. for the construction of the Joint School of Nanoscience and Nanoengineering facility decreased by \$11,514,722 due to the

completion of the facility. The decrease in other revenues of \$9,690,162 was due primarily to a reduction in State grants received for repairs and renovation of campus facilities.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 61.42% of operating expenses, followed by services at 16.65%, scholarships at 7.95%, supplies and materials at 7.53%, depreciation at 4.39%, and utility costs at 2.06%.

Management's Discussion and Analysis

Capital Assets and Debt Administration

The University completed construction of a new Press Box facility for the Aggie Stadium complex at a cost of \$4,778,381. A bond issue of \$3,625,000 provided partial funding for the project. Other projects underway during the year included design phases for the Student Union renovation and a new student health facility.

At June 30, 2012, outstanding commitments on construction contracts totaled \$996,877. The grant to build the Joint School of Nanoscience and Nanoengineering classroom and laboratory facility as a part of the Gateway University Research Park was completed during the fiscal year.

Long-term revenue bond debt totaled \$14,405,000 at June 30, 2012, an increase of \$2,315,000. On December 1, 2011, the University issued \$3,625,000 of University of North Carolina System Pool Revenue Bonds, Series 2011C. Proceeds were used to retire the bond anticipation loan of \$3,250,000 which had a balance of \$3,130,000 and for a current refunding of \$255,000 and \$180,000 of outstanding University of North Carolina Pool Revenue Bonds, Series 1998B and Series 2000, respectively.

Economic Forecast

State support in fiscal year 2012 decreased by \$5,853,515 (5.85%) and current national and statewide economic events continue to adversely impact State revenues. However, University management believes that enrollment growth, increased research activity, and fundraising efforts will help provide the resources necessary to maintain and enhance academic programs and campus life experience.

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

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

Statement of Net Assets

June 30, 2012

Assets

Current Assets

Cash and Cash Equivalents	\$ 26,769,955
Restricted Cash and Cash Equivalents	10,273,360
Restricted Short-Term Investments	90,566
Receivables, Net (Note 4)	11,916,833
Due from University Component Units	19,569
Inventories	1,772,064
Notes Receivable (Note 4)	214,778
Total Current Assets	<u>51,057,125</u>

Noncurrent Assets

Restricted Cash and Cash Equivalents	4,004,780
Restricted Due from Primary Government	6,034
Endowment Investments	27,252,437
Restricted Investments	1,523
Notes Receivable, Net (Note 4)	820,881
Capital Assets — Nondepreciable (Note 5)	13,957,082
Capital Assets — Depreciable, Net (Note 5)	311,359,321
Total Noncurrent Assets	<u>357,402,058</u>

Total Assets

408,459,183

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities (Note 6)	4,981,140
Due to Primary Government	60,083
Unearned Revenue	4,450,302
Interest Payable	150,678
Long-Term Liabilities — Current Portion (Note 7)	1,648,235
Total Current Liabilities	<u>11,290,438</u>

Noncurrent Liabilities

Funds Held for Others	141,043
US Government Grants Refundable	1,063,912
Long-Term Liabilities (Note 7)	21,973,833
Total Noncurrent Liabilities	<u>23,178,788</u>

Total Liabilities

34,469,226

Net Assets

Invested in Capital Assets, Net of Related Debt	310,894,259
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	13,147,402
Endowed Professorships	11,227,651
Departmental Uses	332,634
Loans	244,209
Expendable:	
Scholarships and Fellowships	2,789,417
Research	87,566
Endowed Professorships	1,849,529
Departmental Uses	4,048,025
Capital Projects	857,066
Unrestricted	28,512,199
Total Net Assets	<u>\$ 373,989,957</u>

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, 2012

Revenues

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 45,034,536
Federal Appropriations	7,184,767
Federal Grants and Contracts	22,424,585
State and Local Grants and Contracts	1,268,882
Nongovernmental Grants and Contracts	700,764
Sales and Services, Net (Note 9)	23,276,361
Interest Earnings on Loans	4,168
Other Operating Revenues	1,658,076
Total Operating Revenues	<u>101,552,139</u>

Expenses

Operating Expenses:

Salaries and Benefits	156,312,066
Supplies and Materials	19,154,910
Services	42,379,509
Scholarships and Fellowships	20,242,096
Utilities	5,249,842
Depreciation	11,177,716
Total Operating Expenses	<u>254,516,139</u>

Operating Loss

(152,964,000)

Nonoperating Revenues (Expenses)

State Appropriations	94,181,746
Noncapital Grants - Federal Student Financial Aid	36,425,019
Other Noncapital Grants	35,991,976
Noncapital Gifts	1,132,755
Investment Income	1,275,540
Interest and Fees on Debt	(716,047)
Grant to Gateway University Research Park, Inc.	(18,465,527)
Other Nonoperating Expense	(452,723)
Net Nonoperating Revenues	<u>149,372,739</u>

Income Before Other Revenues and Expenses

(3,591,261)

Capital Grants	2,758,702
Capital Gifts	1,043,588
Additions to Permanent Endowments	<u>2,682,330</u>

Increase in Net Assets

2,893,359

Net Assets

Net Assets — July 1, 2011	<u>371,096,598</u>
Net Assets — June 30, 2012	<u>\$ 373,989,957</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, 2012

Cash Flows from Operating Activities

Received from Customers	\$ 97,190,671
Payments to Employees and Fringe Benefits	(156,195,675)
Payments to Vendors and Suppliers	(68,536,428)
Payments for Scholarships and Fellowships	(20,222,864)
Loans Issued	(170,350)
Collection of Loans	225,630
Interest Earned on Loans	4,168
Other Receipts	1,648,897
Net Cash Used by Operating Activities	<u>(146,055,951)</u>

Cash Flows from Noncapital Financing Activities

State Appropriations	94,181,746
Noncapital Grants - Student Financial Aid	36,481,847
Noncapital Grants	35,843,425
Noncapital Gifts	1,002,432
Additions to Endowments	2,682,330
William D. Ford Direct Lending Receipts	74,129,800
William D. Ford Direct Lending Disbursements	(74,129,800)
Related Activity Agency Receipts	30,758
Related Activity Agency Disbursements	(17,267)
Grant to Gateway University Research Park, Inc.	(20,819,341)
Net Cash Provided by Noncapital Financing Activities	<u>149,385,930</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from Capital Debt	3,625,000
Capital Grants	2,801,905
Acquisition and Construction of Capital Assets	(14,629,188)
Principal Paid on Capital Debt	(4,560,000)
Interest and Fees Paid on Capital Debt	(654,026)
Net Cash Used by Capital and Related Financing Activities	<u>(13,416,309)</u>

Cash Flows from Investing Activities

Proceeds from Sales and Maturities of Investments	84,466
Investment Income	740,456
Purchase of Investments and Related Fees	(3,346,940)
Net Cash Used by Investing Activities	<u>(2,522,018)</u>

Net Decrease in Cash and Cash Equivalents	(12,608,348)
Cash and Cash Equivalents — July 1, 2011	<u>53,656,443</u>

Cash and Cash Equivalents — June 30, 2012	<u>\$ 41,048,095</u>
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Statement of Cash Flows

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

Operating Loss	\$ (152,964,000)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	11,177,716
Allowances and Write-Offs	(69,594)
Changes in Assets and Liabilities:	
Receivables, Net	(3,836,993)
Due from University Component Units	(8,101)
Inventories	59,020
Notes Receivable, Net	55,280
Accounts Payable and Accrued Liabilities	(2,014,526)
Due to Primary Government	(16,823)
U.S. Government Grants Refundable	(74,024)
Unearned Revenue	1,206,284
Compensated Absences	429,809
Net Cash Used by Operating Activities	<u>\$ (146,055,951)</u>

Reconciliation of Cash and Cash Equivalent Balances

Current Assets	
Cash and Cash Equivalents	\$ 26,769,955
Restricted Cash and Cash Equivalents	10,273,360
Noncurrent Assets	
Restricted Cash and Cash Equivalents	<u>4,004,780</u>
Total Cash and Cash Equivalents — June 30, 2012	<u>\$ 41,048,095</u>

Noncash Investing, Capital, and Financing Activities

Assets Acquired Through a Gift	\$ 1,178,088
Change in Fair Value of Investments	581,063
Reinvestment Distributions	346,940
Loss on Disposal of Capital Assets	(452,723)

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

The North Carolina A&T University Foundation, Inc.

Statement of Financial Position June 30, 2012

Current Assets	
Cash and Cash Equivalents	\$ 1,270,574
Investments	6,158,417
Unconditional Promises to Give, Net	63,161
Accounts Receivable-NCA&TSU	23,965
Other Current Assets	577,343
Total Current Assets	<u>8,093,460</u>
Restricted Deposits	
Bond Operating Reserve Fund	500,000
Bond Interest Fund	2,896
Bond Surplus Fund	1,533,361
Bond Debt Service Fund	3,126,201
Bond QEA Fund	35,000
Total Restricted Deposits	<u>5,197,458</u>
Endowment Investments	<u>4,059,057</u>
Property, Furniture and Equipment, at Cost, Net	32,904,909
Long-Term Unconditional Promises to Give, Net	3,465
Other Assets	<u>3,356,384</u>
Total Assets	<u>53,614,733</u>
Liabilities and Net Assets	
Current Liabilities	
Current Maturities of Bonds Payable	1,255,000
Accounts Payable	169,532
Other Liabilities	366,204
Total Current Liabilities	<u>1,790,736</u>
Long-Term Liabilities	
Bonds payable, less current maturities	<u>40,800,000</u>
Total Liabilities	<u>42,590,736</u>
Net Assets	
Unrestricted:	
Operating	2,248,027
Fixed assets	98,023
Total Unrestricted (Deficit)	<u>2,346,050</u>
Temporarily restricted	4,607,211
Permanently restricted	4,070,736
Total Net Assets	<u>11,023,997</u>
Total Liabilities and Net Assets	<u>\$ 53,614,733</u>

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

The North Carolina A&T University Foundation, Inc.

Statement of Activities For the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenues and Reclassifications				
Contributions:				
Foundations and corporations	\$ 5,000	944,187	6,472	955,659
Board of Directors	3,200	1,600	2,630	7,430
Individuals/Friends	54,085	1,221,767	44,639	1,320,491
Interest and dividends	151,833	79,998	70,307	302,138
Administrative fees	82,946	—	—	82,946
Miscellaneous		239,272	—	239,272
Unrealized and realized gain (loss) on investments	(70,758)	(223,110)	—	(293,868)
Satisfaction of program restrictions	1,981,275	(1,981,275)	—	—
Rental income	7,374,181	—	—	7,374,181
Management fees	317,721	—	—	317,721
Fundraising	157,591	—	—	157,591
Total Public Support, Revenues and Reclassifications	10,057,074	282,439	124,048	10,463,561
Expenses				
Scholarships — unrestricted	150,000	—	—	150,000
Scholarships — departmental	661,621	—	—	661,621
Total Scholarships	811,621	—	—	811,621
Academic departmental programs	1,319,654	—	—	1,319,654
Administration	912,214	—	—	912,214
Student housing	6,139,193	—	—	6,139,193
Transfer to NCA&TSU and promises to give writeoffs	—	66,794	348,900	415,694
Total Expenses	9,182,682	66,794	348,900	9,598,376
Change in Net Assets	874,392	215,645	(224,852)	865,185
Net Assets as of the Beginning of the Year	1,471,658	4,391,566	4,295,588	10,158,812
Net assets as of the End of the Year	\$ 2,346,050	4,607,211	4,070,736	11,023,997

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

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

During the year ended June 30, 2012, the Foundation distributed \$1,259,195 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*

Notes to the Financial Statements

Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

C. Basis of Accounting

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents

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

E. Investments

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

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

F. Receivables

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

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, 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. Interest costs incurred are capitalized during the period of construction.

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

J. Noncurrent Long-Term Liabilities

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

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

K. Compensated Absences

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus

Notes to the Financial Statements

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

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$40,980,575 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. Assets and shares of

Notes to the Financial Statements

the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2012 was \$37,736. The carrying amount of the University's deposits not with the State Treasurer was \$29,784 and the bank balance was \$28,980. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, the University's bank balance was not exposed to custodial credit risk as each depositor is now insured for up to \$250,000.

B. Investments

University – The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds 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, 2012, for the Long-Term Investment Pool.

Investment Type	Fair Value	Investment Maturities	
		Less than 1 Year	6 to 10 Years
Debt Securities			
Debt Mutual Funds	\$ 2,538,588	—	2,538,588
Money Market Mutual Funds	38,116	38,116	—
Other Securities			
UNC Investment Fund	17,392,968		
Equity Mutual Funds	7,271,075		
Real Estate	11,690		
Total Long-Term Investment Pool	<u>\$27,252,437</u>		

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

Investment Type	Fair Value	AAA Aaa	Unrated
Debt Mutual Fund	\$2,538,588	2,538,588	—
Money Market Mutual Fund	38,116	—	38,116

Rating Agency: Morningstar

At June 30, 2012, 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, 2012, the University’s investments include \$17,392,968 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 \$1,523 and an insurance policy with a cash surrender value of \$90,566

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

Investment Type	Fair Value
Debt Securities	
Debt Mutual Funds	\$ 2,538,588
Money Market Mutual Funds	38,116
Other Securities	
UNC Investment Fund	17,392,968
Other Mutual Funds	7,271,075
Investment in Real Estate	11,690
Domestic Stocks	1,523
Other-Cash Surrender Value	
Life Insurance	<u>90,566</u>
Total Investments	<u>\$27,344,526</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 \$10,204,764 and stock in the amount of \$12,710. The total amount of investments for the North Carolina A&T University Foundation, Inc., is \$10,217,474.

Notes to the Financial Statements

C. Reconciliation of Deposits and Investments

A reconciliation of deposits and investments for the University of June 30, 2012, is as follows:

Cash on Hand	\$ 37,736
Amount of Deposits with Private Financial Institutions	29,784
Investments with the State Treasurer	40,980,575
Investments with the UNC Investment Fund	17,392,968
Long-Term Investment Pool	9,859,469
Non-pooled Investments	<u>92,089</u>
Total Deposits and Investments	<u>68,392,621</u>
Cash and Cash Equivalents	
Current:	
Cash and Cash Equivalents	26,769,955
Restricted Cash and Cash Equivalents	10,273,360
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>4,004,780</u>
Total Deposits	<u>41,048,095</u>
Investments	
Current:	
Restricted Short-Term Investment	90,566
Noncurrent:	
Endowment Investments	27,252,437
Other Investments	<u>1,523</u>
Total Investments	<u>27,344,526</u>
Total Deposits and Investments	<u>\$ 68,392,621</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 31st for the prior three years. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2012, net appreciation of \$3,333,459.11 was available to be spent, of which \$2,511,002.92 was classified in net assets as restricted expendable for scholarships, professorships, and departmental uses as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2012, the amount of investment losses reported against the nonexpendable endowment balances were \$101,887.

Note 4 — Receivables

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables			
Students	\$ 880,710	460,877	419,833
Accounts	472,814	34,894	437,920
Intergovernmental	9,883,204	—	9,883,204
Pledges	72,543	—	72,543
Interest on loans	158,008	—	158,008
Other	945,325	—	945,325
Total Current Receivables	<u>\$12,412,604</u>	<u>495,771</u>	<u>11,916,833</u>
Notes Receivable			
Notes receivable-current			
Federal loan program	<u>\$ 214,778</u>	—	<u>214,778</u>
Notes receivable-noncurrent			
Federal loan program	<u>\$ 1,475,048</u>	<u>654,167</u>	<u>820,881</u>

Notes to the Financial Statements

Note 5 — Capital Assets

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

	Balance July 1	Increases	Decreases	Balance June 30
Capital Assets, Non-Depreciable:				
Land	\$ 9,683,313	546,655	226,895	10,003,073
Art, Literature and Artifacts	2,502,077	—	11,280	2,490,797
Construction in Progress	3,022,193	781,266	2,340,247	1,463,212
Total Capital Assets, Non-Depreciable	15,207,583	1,327,921	2,578,422	13,957,082
Capital Assets, Depreciable:				
Buildings	344,467,546	11,464,036	—	355,931,582
Machinery and Equipment	55,512,615	3,313,090	1,488,095	57,337,610
General Infrastructure	18,972,947	74,136	—	19,047,083
Total Capital Assets Depreciable	418,953,108	14,851,262	1,488,095	432,316,275
Less Accumulated Depreciation				
Buildings	81,787,458	7,233,819	—	89,021,277
Machinery and Equipment	24,212,629	3,334,911	1,046,651	26,500,889
General Infrastructure	4,825,802	608,986	—	5,434,788
Total Accumulated Depreciation	110,825,889	11,177,716	1,046,651	120,956,954
Total Capital Assets, Depreciable, Net	308,127,219	3,673,546	441,444	311,359,321
Capital Assets, Net	\$ 323,334,802	5,001,467	3,019,866	325,316,403

Note 6 — Accounts Payable and Accrued Liabilities

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

	Amount
Accounts payable	\$3,882,935
Accrued payroll	789,859
Contract retainage	215,474
Intergovernmental payables	92,872
Total accounts payable and accrued liabilities	\$4,981,140

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, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$12,090,000	3,625,000	1,310,000	14,405,000	1,030,000
Deduct Discount	(1,234)	—	(823)	(411)	—
Deduct Deferred Charge on Refunding	(319,793)	—	(48,648)	(271,145)	—
Add Premium	292,045	17,720	21,065	288,700	—
Total Bonds Payable	12,061,018	3,642,720	1,281,594	14,422,144	1,030,000
Notes Payable	3,250,000	—	3,250,000	—	—
Compensated Absences	8,770,115	6,334,924	5,905,115	9,199,924	618,235
Total Long-Term Liabilities	\$24,081,133	9,977,644	10,436,709	23,622,068	1,648,235

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 6/30/12	Principal Outstanding 6/30/12
UNC System Pool						
Parking System	(A)	5.25	10/1/2013	\$ 1,465,000	1,465,000	—
Stadium System	(B)	5.75	10/1/2012	1,555,000	1,555,000	—
Parking Deck	(C)	4.00-5.00	10/1/2033	5,965,000	495,000	5,470,000
Dining System	(C)	4.00-5.00	10/1/2020	7,525,000	2,215,000	5,310,000
Stadium System	(D)	4.00-5.01	10/1/2031	3,365,000	—	3,365,000
Parking System	(D)	2.00-4.50	10/1/2013	260,000	—	260,000
Total UNC Pool Revenue Bonds				\$20,135,000	5,730,000	14,405,000
Less Unamortized Loss on Refunding						(271,145)
Less Unamortized Discount						(411)
Plus Unamortized Premium						288,700
Total Revenue Bonds Payable						\$14,422,144

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

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

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

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

Notes to the Financial Statements

C. Annual Requirements

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

Fiscal Year	Annual Requirements Revenue Bonds Payable	
	Principal	Interest
2013	\$ 1,030,000	586,362
2014	895,000	554,613
2015	780,000	524,513
2016	815,000	494,450
2017	840,000	462,937
2018-2022	4,080,000	1,776,228
2023-2027	1,865,000	1,197,159
2028-2032	3,110,000	626,844
2033-2037	990,000	49,100
Total Requirements	<u>\$ 14,405,000</u>	<u>6,272,206</u>

D. Bond Defeasances

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

On December 1, 2011, the University issued \$440,000 in University of North Carolina System Pool Revenue Bonds, Series 2011C, refunding bonds with an average interest rate of 2%. The bonds were issued for a current refunding of \$255,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B, with an average interest rate of 5.25% and \$180,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 2000, with an average interest rate of 5.75%. The refunding was undertaken to reduce total debt service payments by \$15,776 over the next two years and resulted in an economic gain of \$13,821.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2012, the outstanding balance of prior year defeased bonds was \$1,000,000.

Notes to the Financial Statements

E. Component Unit

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

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

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

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

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

<u>Year Ending</u>	<u>Principal</u>
2013	\$ 1,255,000
2014	1,310,000
2015	1,360,000
2016	1,415,000
2017	1,475,000
Thereafter	<u>35,240,000</u>
	<u>\$42,055,000</u>

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

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, 2012:

Fiscal Year	Amount
2013	\$ 175,465
2014	82,738
2015	25,770
Total Minimum Lease Payments	\$ 283,973

Rental expense for all operating leases during the year was \$674,203.

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	\$ 68,505,058	—	23,199,067	271,455	45,034,536
Sales and services:					
Residential life	\$ 9,665,278	—	3,088,071	43,560	6,533,647
Dining	11,490,103	—	3,657,371	51,644	7,781,088
Student Union	23,093	—	—	—	23,093
Health, Physical Education, and Recreation Services	124,394	—	—	—	124,394
Bookstore	5,242,014	74,725	—	—	5,167,289
Parking	1,310,467	—	—	(3,162)	1,313,629
Athletic	1,904,821	—	—	—	1,904,821
Other	267,248	—	—	—	267,248
Sales and services of educational and related activities	2,207,543	2,046,391	—	—	161,152
Total sales and services	\$ 32,234,961	2,121,116	6,745,442	92,042	23,276,361

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	\$ 71,051,270	2,263,861	1,912,761	325,906	673	—	75,554,471
Research	17,864,198	2,311,754	7,406,820	1,585,667	—	—	29,168,439
Public Service	5,292,373	474,530	1,569,896	229,200	—	—	7,565,999
Academic Support	15,377,314	5,040,809	4,231,753	725,517	—	—	25,375,393
Student Services	5,595,717	281,836	1,087,937	31,664	—	—	6,997,154
Institutional Support	16,912,447	341,165	4,543,254	638,281	3,310	—	22,438,457
Operations and Maintenance of Plant	9,219,647	1,124,715	3,539,358	—	3,699,584	—	17,583,304
Student Financial Aid	272,001	5,881	62,548	13,856,099	—	—	14,196,529
Auxiliary Enterprises	14,727,099	7,310,359	18,025,182	2,849,762	1,546,275	—	44,458,677
Depreciation	—	—	—	—	—	11,177,716	11,177,716
Total	\$ 156,312,066	19,154,910	42,379,509	20,242,096	5,249,842	11,177,716	254,516,139

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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$123,817,346, of which \$67,047,209 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$4,988,312 and \$4,022,833, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$4,988,312, \$3,566,827, and \$2,523,015, 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) 707-0500.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2012, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$123,817,346, of which \$38,136,960 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,608,568, and \$2,288,218, 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, 2012, covered payroll was \$370,935, and total employer and employee contributions were \$25,965 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 \$334,346 for the year ended June 30, 2012.

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, 2012, were \$61,914. The voluntary contributions by employees amounted to \$651,753 for the year ended June 30, 2012.

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. The plan administrators are TIAA/CREF and Fidelity. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,095,612 for the year ended June 30, 2012.

Note 12 — Other Postemployment Benefits

A. Health Benefits

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

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

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

For the current fiscal year the University contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$5,259,208, \$5,260,358, and \$4,748,108, 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$546,958, \$558,242, and \$548,670, respectively. The University assumes no liability for long term disability benefits under the Plan other than its contribution.

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

Note 13 — Risk Management

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

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

Notes to the Financial Statements

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

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

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

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

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for 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 \$996,877 and on other purchases were \$8,978,433 at June 30, 2012.

B. Pending Litigation and Claims

The University is party to legal actions and a potential legal action with probable liabilities to the University totaling \$500,000. This amount is reflected in the Accounts Payable Accrual in the Financial Statements.

Notes to 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.

C. Other Contingent Receivables

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

<u>Purpose</u>	<u>Amount</u>
Pledges to Endowments	<u>\$1,858,014</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 \$18,465,527 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,