

STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL & TECHNICAL
STATE UNIVERSITY**

GREENSBORO, NORTH CAROLINA

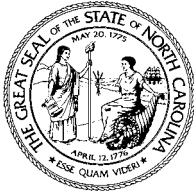
FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Agricultural & Technical State University

We have completed a financial statement audit of North Carolina Agricultural & Technical State University for the year ended June 30, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

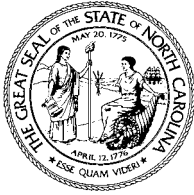
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Agricultural & Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The North Carolina A&T University Foundation, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Agricultural & Technical State University and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 of the Notes to the Financial Statements, during the year ended June 30, 2014, the North Carolina Agricultural & Technical State University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 11, 2014

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

Introduction

North Carolina Agricultural & Technical State University provides the following discussion and analysis in order to give the reader a summary of its financial activities and to provide assistance in understanding the financial statements for the fiscal year ended June 30, 2014. Comparative data for the year ended June 30, 2013 is also included. All information provided has been prepared by University staff for the purpose of identifying significant transactions, trends and events that have had an impact on the fiscal health of the University and that may continue to exert influence in future years. To properly use and interpret the information provided in this discussion and analysis, it is recommended that it be read in conjunction with the related financial statements and the accompanying notes to the financial statements for further explanation and details.

The Financial Statements

The financial statements for North Carolina Agricultural & Technical State University include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

These statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position using condensed versions. Complete versions of each of the financial statements are presented as exhibits immediately following management's discussion and analysis.

Statement of Net Position

The Statement of Net Position summarizes and provides insight into the financial wellness of the University at June 30, 2014. It presents the financial position as defined by the balances of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities are classified as current or noncurrent. Current assets and liabilities include those resources and obligations that pertain to current operating requirements. Noncurrent assets are held to meet future needs while noncurrent liabilities are obligations that will be payable in future periods. Deferred outflows of resources are made up of funds held in escrow for refunded bonds and will be amortized over the life of the bond issue. Net position (assets and deferred outflows of resources, net of liabilities and deferred inflows of resources) is grouped into three categories: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position is further classified as nonexpendable or expendable. Endowments and loan funds comprise the nonexpendable net position and expendable net position is made up primarily of contracts, grants, expendable endowment funds, and restricted gifts. As part of the implementation of

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GASB Statement No. 65 in fiscal year 2014, prior year amounts in the condensed Statement of Net Position have been restated. Refer to Note 15 of the Notes to the Financial Statements for details.

Condensed Statement of Net Position

| | <u>2014</u> | <u>2013 (as restated)</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|---|--------------------------|-------------------------------|--------------------------|---------------------------|
| Assets | | | | |
| Current Assets | \$ 56,793,389.52 | \$ 52,729,910.28 | \$ 4,063,479.24 | 7.71% |
| Noncurrent Capital Assets, Net of Accumulated Depreciation | 328,497,377.71 | 321,842,428.59 | 6,654,949.12 | 2.07% |
| Other Noncurrent Assets | <u>48,162,895.69</u> | <u>45,411,150.11</u> | <u>2,751,745.58</u> | 6.06% |
| Total Assets | <u>433,453,662.92</u> | <u>419,983,488.98</u> | <u>13,470,173.94</u> | 3.21% |
| Deferred Outflows of Resources | | | | |
| Deferred Loss on Refunding | <u>197,457.05</u> | <u>230,366.55</u> | <u>(32,909.50)</u> | -14.29% |
| Liabilities | | | | |
| Current Liabilities | 10,796,285.28 | 10,925,780.85 | (129,495.57) | -1.19% |
| Long-Term Liabilities, Net | 35,591,632.23 | 32,686,542.64 | 2,905,089.59 | 8.89% |
| Other Noncurrent Liabilities | <u>1,169,122.15</u> | <u>1,231,179.50</u> | <u>(62,057.35)</u> | -5.04% |
| Total Liabilities | <u>47,557,039.66</u> | <u>44,843,502.99</u> | <u>2,713,536.67</u> | 6.05% |
| Deferred Inflows of Resources | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | 0.00% |
| Net Position | | | | |
| Net Investment in Capital Assets | 308,666,231.36 | 308,006,803.94 | 659,427.42 | 0.21% |
| Restricted-Nonexpendable | 30,613,481.39 | 27,371,100.44 | 3,242,380.95 | 11.85% |
| Restricted-Expendable | 17,787,459.31 | 13,533,187.68 | 4,254,271.63 | 31.44% |
| Unrestricted | <u>29,026,908.25</u> | <u>26,459,260.48</u> | <u>2,567,647.77</u> | 9.70% |
| Total Net Position | <u>\$ 386,094,080.31</u> | <u>\$ 375,370,352.54</u> | <u>\$ 10,723,727.77</u> | 2.86% |

While the overall change in the total net position was slightly less than three percent, there was significant activity within several categories. The total assets of North Carolina Agricultural & Technical State University increased by \$13,470,173.94 over the previous year, deferred outflows decreased by \$32,909.50, while liabilities increased by only \$2,713,536.67.

Current assets total \$56,793,389.52, an increase of \$4,063,479.24 over the prior year. Receivables increased by \$3,463,402.07, while cash and cash equivalents increased by \$1,399,438.74.

The majority of the increase in receivables of \$3,463,402.07 is the result of outstanding amounts due from the US Department of Agriculture for Ag Extension and Research programs totaling \$1,061,445.39, as well as from the Department of Education, primarily for Title III grants and direct loans in the amount of \$1,281,898.12. Also, on July 22, 2013, University bookstore operations were outsourced to Barnes and Noble, which at year end

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

accounted for an additional receivable of \$860,000.00. The remaining increase in receivables consisted of contracts and grants, parking fines, pledges, loans, and amounts due from employees.

The \$1,399,438.74 increase in current cash and cash equivalents was due primarily to the following:

- Annual activities of auxiliary services provided a net increase in cash of \$2,973,517.87. The increase was due primarily from increases in fees charged for athletics, room and board, receipts from the NCAA tournament, and concession revenue, as well as decreases in expenses for salaries, travel, and purchases of inventory for resale. Fiscal year 2014 was the first year Barnes and Noble was contracted to operate the University's bookstore.
- The University retained \$1,455,815.01 in advance collections on student charges for tuition and fees as well as funds for energy conservation projects at June 30, 2014, an increase of \$214,544.14 over the prior year.
- Cash from the collection of overhead expense reimbursements for contracts and grants increased by \$561,120.51 mainly due to an increase in contracts and grants expenses on which overhead is calculated.
- Cash in restricted funds decreased by \$1,306,681.96 due primarily to outstanding invoices and drawdown requests on reimbursable grants in the amount of \$3,692,036.55. Gifts off-set the decrease in contracts and grants by \$1,287,023.66, while increases in reimbursement of overhead expenses and retirement costs as well as endowment spending funds contributed \$1,098,330.93.
- Current cash for the construction of facilities decreased by \$1,163,665.06 during the year due to expenses for the new student center.
- Loan advances exceeded collections, causing a decrease in cash held by the Perkins Loan fund of \$97,711.27.

Noncurrent capital assets, net of accumulated depreciation, increased by 2.07% for a total of \$6,654,949.12. The components that made up the change in net capital assets consisted of: additions to equipment, vehicles, buildings, land, and infrastructure of \$7,739,707.53; net additions to construction in progress of \$11,378,969.21; asset disposals of \$3,916,763.06; and a net change in depreciation of \$8,546,964.56, made up of \$11,183,047.42 in annual depreciation expense reduced by the accumulated depreciation on disposals totaling \$2,636,082.86. The large increase in construction in progress resulted primarily from two projects: a new student center and student health facility.

Other noncurrent assets increased over the prior fiscal year by \$2,751,745.58. The increase in investments of \$6,810,234.25, off-set by a decrease in noncurrent cash of \$3,873,679.90, made up the majority of the total increase. Investments increased due to the addition of \$2,000,000.00 from endowment gifts, reinvestment of net income of \$389,318.36, and market appreciation of \$4,495,225.81. The cash decreased as expenses for two major construction projects reduced the balances that were on hand at June 30, 2013 by \$3,735,344.01.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current liabilities remained fairly constant, decreasing by \$129,495.57 or 1.19%; however, long-term liabilities increased by \$2,905,089.59, off-set by a slight decrease in other noncurrent liabilities of \$62,057.35. The University issued a note payable in the amount of \$4,183,984.78 to fund the campus-wide energy savings performance contract. The increase in notes payable was off-set by a decrease of \$1,042,246.19 in net bonds payable due mainly to the reclassification of the current portion of bonds totaling \$990,000.00.

The increase in total net position of \$10,723,727.77 is composed of the following: a small increase of \$659,427.42 in net investment in capital assets, increases in nonexpendable and expendable net position of \$3,242,380.95 and \$4,254,271.63, respectively, and a \$2,567,647.77 increase in unrestricted net position. Endowment gifts of \$3,242,424.64 contributed the majority of the increase in nonexpendable net position. The endowments also provided \$3,181,893.36 of the \$4,254,271.63 increase in expendable net position with the balance of the increase consisting primarily of a decrease of \$1,027,723.81 in assets held for construction and an increase in restricted gifts and endowment spending funds of \$1,732,193.40. The increase in unrestricted net position was due primarily to an increase of \$4,261,096.50 in auxiliary and unrestricted funds as well as an increase in unrestricted endowments of \$108,681.25, off-set by decreases in net position for facility construction and debt service of \$1,802,129.98.

Statement of Revenues, Expenses, and Changes in Net Position

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

| | 2014 | 2013 | Dollar Change | Percent Change |
|---|--------------------------|--------------------------|-------------------------|-------------------|
| Operating Revenues | | | | |
| Student Tuition and Fees, Net | \$ 52,472,310.73 | \$ 49,980,989.82 | \$ 2,491,320.91 | 4.98% |
| Grants and Contracts | 25,555,739.48 | 24,135,680.39 | 1,420,059.09 | 5.88% |
| Federal Appropriations | 8,288,730.91 | 8,380,101.81 | (91,370.90) | -1.09% |
| Sales and Services | 23,839,753.08 | 23,485,144.96 | 354,608.12 | 1.51% |
| Other Operating Revenues | 2,295,680.10 | 1,857,757.83 | 437,922.27 | 23.57% |
| Total Operating Revenues | 112,452,214.30 | 107,839,674.81 | 4,612,539.49 | 4.28% |
| Operating Expenses | | | | |
| Salaries and Benefits | 159,890,423.16 | 161,912,927.56 | (2,022,504.40) | -1.25% |
| Supplies and Materials | 14,556,119.99 | 17,239,416.60 | (2,683,296.61) | -15.56% |
| Services | 43,290,738.83 | 42,842,908.12 | 447,830.71 | 1.05% |
| Scholarships and Fellowships | 19,428,443.68 | 19,161,756.39 | 266,687.29 | 1.39% |
| Utilities | 5,403,653.67 | 5,319,557.56 | 84,096.11 | 1.58% |
| Depreciation | 11,183,047.42 | 11,193,508.14 | (10,460.72) | -0.09% |
| Total Operating Expenses | 253,752,426.75 | 257,670,074.37 | (3,917,647.62) | -1.52% |
| Operating Loss | (141,300,212.45) | (149,830,399.56) | 8,530,187.11 | -5.69% |
| Nonoperating Revenues (Expenses) | | | | |
| State Appropriations | 92,665,165.13 | 97,542,271.07 | (4,877,105.94) | -5.00% |
| Noncapital Grants and Gifts | 50,272,446.36 | 47,646,879.84 | 2,625,566.52 | 5.51% |
| Interest and Fees on Debt | (996,319.54) | (972,246.50) | (24,073.04) | 2.48% |
| Other Nonoperating Expenses | (1,279,421.07) | (827,868.12) | (451,552.95) | 54.54% |
| Other Nonoperating Revenues | 5,137,818.73 | 3,406,047.83 | 1,731,770.90 | 50.84% |
| Net Nonoperating Revenues | 145,799,689.61 | 146,795,084.12 | (995,394.51) | -0.68% |
| Income (Loss) Before Other Revenues | 4,499,477.16 | (3,035,315.44) | 7,534,792.60 | 248.24% |
| Other Revenues | | | | |
| Capital Appropriations and Grants | 2,850,098.05 | 2,087,874.90 | 762,223.15 | 36.51% |
| Capital Gifts | 131,727.92 | | 131,727.92 | 100.00% |
| Additions to Endowments | 3,242,424.64 | 2,327,836.01 | 914,588.63 | 39.29% |
| Total Other Revenues | 6,224,250.61 | 4,415,710.91 | 1,808,539.70 | 40.96% |
| Total Increase in Net Position | 10,723,727.77 | 1,380,395.47 | 9,343,332.30 | 676.86% |
| Net Position - Beginning of the Year | 375,370,352.54 | 373,989,957.07 | 1,380,395.47 | 0.37% |
| Net Position - End of the Year | \$ 386,094,080.31 | \$ 375,370,352.54 | \$ 10,723,727.77 | 2.86% |

The Statement of Revenues, Expenses, and Changes in Net Position consist of total revenues of \$266,751,895.13 and total expenses of \$256,028,167.36, resulting in an overall increase in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

net position at year-end of \$10,723,727.77, an increase of \$9,343,332.30 over the prior year. Highlights of the significant changes are as follows:

- Total operating revenues increased by \$4,612,539.49. Tuition and fees increased by \$2,491,320.91 or 4.98%, due to increases in tuition and fee rates. Grants and contracts revenue increased \$1,420,059.09 primarily due to increased funding for the National Science Foundation Engineering Research Center. Other operating revenues increased by \$437,922.27 and include student support revenue, activity receipts, and conference fees.
- Total operating expenses decreased by \$3,917,647.62. Salaries and benefits decreased by \$2,022,504.40 due to attrition and hiring restrictions. Supplies and materials decreased by \$2,683,296.61 as the University continued its efforts to reduce operating costs and streamline expenses. In addition, the University contracted out the operation of its bookstore to a third party vendor, decreasing supplies and materials due to the resulting decrease in cost of goods sold. Decreases in salaries and benefits and supplies and materials were offset by minor increases in services, scholarships and fellowships, and utilities.
- The University experienced a decrease in net nonoperating revenue of \$995,394.51. The major component of this change was the decrease in state appropriations of \$4,877,105.94. The decrease in state appropriations was partially offset by an increase in noncapital grants and gifts of \$2,625,566.52, consisting primarily of the following grant income: Department of Education Title III grants for \$911,165.45, National Institute of Health Minority Biomedical Research Support grants totaling \$327,190.88, and Pell financial aid grants in the amount of \$1,016,068.95. The increase in Pell is attributed to an increase in the maximum Pell award amount over the prior year. Investment earnings, reported as other nonoperating revenues, also increased significantly in 2014 due to market appreciation of \$4,495,225.81 and interest and dividend earnings of \$642,592.92.
- Other revenues increased by \$1,808,539.70. Through the generosity of the University's supporters, endowment gifts increased by \$914,588.63. The net increase in capital appropriations and grants was due to an increase in state capital appropriations of \$2,210,237.00, off-set by decreases in funds provided through state reserves and bonds funds of \$1,465,873.19.

The University presents expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Personnel services accounted for 63.01% of operating expenses, followed by services at 17.06%, scholarships at 7.66%, supplies and materials at 5.73%, depreciation at 4.41%, and utility costs at 2.13%.

Capital Assets and Debt Administration

The University's new student health center is scheduled for completion in October, 2014. The \$10,200,000.00 project will provide a state-of-the art health care facility. Preparations began



The new student health center, scheduled for completion in October, 2014.

in fiscal year 2014 for the new student center that will be completed in 2017. The complex project involves infrastructure improvements, temporary housing for staff and dining operations that were housed in the current student union, as well as construction of the new facility. The student center is expected to cost approximately \$90 million. Both projects totaled \$16,196,510.84 of the \$17,937,777.82 balance in construction in progress at

June 30, 2014.

On April 8, 2014, the University entered into an installment financing contract in the amount of \$4,183,984.78 to fund a campus-wide energy savings project that will include lighting and HVAC upgrades, improvement to building exteriors, and new efficient water meters. In addition to the installment financing contract, long-term debt included \$22,490,000.00 in revenue bonds. Total debt service payments in 2014 consisted of \$1,095,000.00 in principal, \$944,721.00 in interest, and \$51,598.54 in issuance costs and fees.

Future Outlook

State support in fiscal year 2014 decreased by \$4,877,105.94 or approximately 5%. Even though current national and statewide economic events continue to adversely impact state revenues, University management continues to believe 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.

Through donations and market appreciation, the University endowment fund grew from \$32,959,498.12 to \$39,501,410.87, an increase of \$6,541,912.75 or 20%. The endowment board closely monitors endowment investments, evaluating the effectiveness of fund managers and asset allocation. The University has placed a high priority on continued donor outreach and investment growth through asset management.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

The University also recognizes the need to continually review and update programs offered in order to attract and retain quality students. The University recently petitioned and received approval from the University of North Carolina General Administration to replace its Master of Science in Management Program (MSM) with the Master of Business Administration (MBA). MBA programs are the signature graduate programs for business schools. The change, which will enhance the visibility of graduate programming in the School of Business and Economics at North Carolina A&T State University, will become effective in the fall semester 2014.

Also, the University of North Carolina Board of Governors recently approved a new Bachelor of Science degree in Information Technology at North Carolina A&T State University. The new program will focus on mainframe education. According to the Bureau of Labor Statistics, the demand for graduates with a Bachelor of Science degree in Information Technology is expected to increase by 20%. For example, General Motors announced that it will hire 10,000 information technology workers in the next three to five years. The program will be available by 2015.

North Carolina Agricultural & Technical State University
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

| | |
|--------------------------------------|------------------|
| Cash and Cash Equivalents | \$ 26,093,015.74 |
| Restricted Cash and Cash Equivalents | 12,985,830.59 |
| Short-Term Investments | 91,219.00 |
| Receivables, Net (Note 4) | 16,669,998.59 |
| Inventories | 736,058.50 |
| Notes Receivable | 217,267.10 |

| | |
|----------------------|---------------|
| Total Current Assets | 56,793,389.52 |
|----------------------|---------------|

Noncurrent Assets:

| | |
|--|----------------|
| Restricted Cash and Cash Equivalents | 9,992,018.30 |
| Receivables | 160,000.00 |
| Endowment Investments | 37,172,618.94 |
| Other Investments | 2,009.49 |
| Notes Receivable, Net (Note 4) | 836,248.96 |
| Capital Assets - Nondepreciable (Note 5) | 30,361,453.25 |
| Capital Assets - Depreciable, Net (Note 5) | 298,135,924.46 |

| | |
|-------------------------|----------------|
| Total Noncurrent Assets | 376,660,273.40 |
|-------------------------|----------------|

| | |
|--------------|----------------|
| Total Assets | 433,453,662.92 |
|--------------|----------------|

DEFERRED OUTFLOWS OF RESOURCES

| | |
|----------------------------|------------|
| Deferred Loss on Refunding | 197,457.05 |
|----------------------------|------------|

LIABILITIES

Current Liabilities:

| | |
|---|--------------|
| Accounts Payable and Accrued Liabilities (Note 6) | 6,756,534.21 |
| Due to Primary Government | 54,969.92 |
| Unearned Revenue | 2,150,258.79 |
| Interest Payable | 265,362.36 |
| Long-Term Liabilities - Current Portion (Note 7) | 1,569,160.00 |

| | |
|---------------------------|---------------|
| Total Current Liabilities | 10,796,285.28 |
|---------------------------|---------------|

Noncurrent Liabilities:

| | |
|-------------------------------------|---------------|
| Funds Held for Others | 199,138.52 |
| U. S. Government Grants Refundable | 969,983.63 |
| Long-Term Liabilities, Net (Note 7) | 35,591,632.23 |

| | |
|------------------------------|---------------|
| Total Noncurrent Liabilities | 36,760,754.38 |
|------------------------------|---------------|

| | |
|-------------------|---------------|
| Total Liabilities | 47,557,039.66 |
|-------------------|---------------|

DEFERRED INFLOWS OF RESOURCES

| | |
|-------------------------------------|------|
| Total Deferred Inflows of Resources | 0.00 |
|-------------------------------------|------|

North Carolina Agricultural & Technical State University
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

| | |
|----------------------------------|--------------------------|
| Net Investment in Capital Assets | 308,666,231.36 |
| Restricted for: | |
| Nonexpendable: | |
| Scholarships and Fellowships | 18,442,256.49 |
| Endowed Professorships | 11,282,056.18 |
| Departmental Uses | 655,396.49 |
| Loans | 233,772.23 |
| Expendable: | |
| Scholarships and Fellowships | 6,804,392.95 |
| Research | 360,052.69 |
| Endowed Professorships | 4,860,292.18 |
| Departmental Uses | 5,762,721.49 |
| Unrestricted | <u>29,026,908.25</u> |
| Total Net Position | <u>\$ 386,094,080.31</u> |

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

North Carolina Agricultural & Technical State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014

Exhibit A-2

REVENUES

| | |
|--|------------------|
| Operating Revenues: | |
| Student Tuition and Fees, Net (Note 9) | \$ 52,472,310.73 |
| Federal Appropriations | 8,288,730.91 |
| Federal Grants and Contracts | 22,674,724.70 |
| State and Local Grants and Contracts | 1,649,146.78 |
| Nongovernmental Grants and Contracts | 1,231,868.00 |
| Sales and Services, Net (Note 9) | 23,839,753.08 |
| Interest Earnings on Loans | 3,763.85 |
| Other Operating Revenues | 2,291,916.25 |
| | <hr/> |
| Total Operating Revenues | 112,452,214.30 |

EXPENSES

| | |
|------------------------------|------------------|
| Operating Expenses: | |
| Salaries and Benefits | 159,890,423.16 |
| Supplies and Materials | 14,556,119.99 |
| Services | 43,290,738.83 |
| Scholarships and Fellowships | 19,428,443.68 |
| Utilities | 5,403,653.67 |
| Depreciation | 11,183,047.42 |
| | <hr/> |
| Total Operating Expenses | 253,752,426.75 |
| | <hr/> |
| Operating Loss | (141,300,212.45) |

NONOPERATING REVENUES (EXPENSES)

| | |
|---|----------------|
| State Appropriations | 92,665,165.13 |
| Noncapital Grants - Student Financial Aid | 36,545,317.28 |
| Noncapital Grants | 11,470,113.83 |
| Noncapital Gifts | 2,257,015.25 |
| Investment Income | 5,137,818.73 |
| Interest and Fees on Debt | (996,319.54) |
| Other Nonoperating Expenses | (1,279,421.07) |
| | <hr/> |
| Net Nonoperating Revenues | 145,799,689.61 |
| | <hr/> |
| Income Before Other Revenues | 4,499,477.16 |
| Capital Appropriations | 2,832,238.71 |
| Capital Grants | 17,859.34 |
| Capital Gifts | 131,727.92 |
| Additions to Endowments | 3,242,424.64 |
| | <hr/> |
| Increase in Net Position | 10,723,727.77 |

NET POSITION

| | |
|------------------------------|-------------------------------|
| Net Position - July 1, 2013 | <hr/> 375,370,352.54 |
| Net Position - June 30, 2014 | <hr/> <hr/> \$ 386,094,080.31 |

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

North Carolina Agricultural & Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-------------------------|
| Received from Customers | \$ 107,343,552.56 |
| Payments to Employees and Fringe Benefits | (159,937,689.47) |
| Payments to Vendors and Suppliers | (63,459,975.12) |
| Payments for Scholarships and Fellowships | (19,407,915.67) |
| Loans Issued | (240,136.00) |
| Collection of Loans | 242,498.21 |
| Interest Earned on Loans | 3,763.85 |
| Other Receipts | 2,469,605.61 |
| | <hr/> |
| Net Cash Used by Operating Activities | <u>(132,986,296.03)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-----------------------|
| State Appropriations | 92,665,165.13 |
| Noncapital Grants - Student Financial Aid | 35,737,356.03 |
| Noncapital Grants | 10,892,364.09 |
| Noncapital Gifts | 2,139,114.88 |
| Additions to Endowments | 3,242,424.64 |
| William D. Ford Direct Lending Receipts | 75,088,185.00 |
| William D. Ford Direct Lending Disbursements | (75,088,185.00) |
| Related Activity Agency Receipts | 64,992.22 |
| Related Activity Agency Disbursements | (39,286.07) |
| | <hr/> |
| Net Cash Provided by Noncapital Financing Activities | <u>144,702,130.92</u> |

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

| | |
|---|------------------------|
| Proceeds from Capital Debt | 4,183,984.78 |
| State Capital Appropriations | 2,832,238.71 |
| Capital Grants | 23,893.03 |
| Acquisition and Construction of Capital Assets | (17,473,479.73) |
| Principal Paid on Capital Debt | (1,095,000.00) |
| Interest and Fees Paid on Capital Debt | (988,992.32) |
| | <hr/> |
| Net Cash Used by Capital Financing and Related Financing Activities | <u>(12,517,355.53)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-------------------------|
| Proceeds from Sales and Maturities of Investments | 102,974.00 |
| Investment Income | 642,287.92 |
| Purchase of Investments and Related Fees | (2,417,982.44) |
| | <hr/> |
| Net Cash Used by Investing Activities | <u>(1,672,720.52)</u> |
| Net Decrease in Cash and Cash Equivalents | (2,474,241.16) |
| Cash and Cash Equivalents - July 1, 2013 | 51,545,105.79 |
| | <hr/> |
| Cash and Cash Equivalents - June 30, 2014 | <u>\$ 49,070,864.63</u> |

The North Carolina A&T University Foundation, Inc.
Statement of Financial Position
June 30, 2014

Exhibit B-1

ASSETS

Current Assets:

| | |
|---------------------------|--------------|
| Cash and Cash Equivalents | \$ 2,300,736 |
| Investments | 10,165,148 |
| Pledges Receivable, Net | 903,901 |
| Prepaid Expenses | 33,324 |
| Due from NCA&T University | 45,532 |
| Accounts Receivable | 357,541 |
| Other Receivable, Net | 383,869 |
| | <hr/> |
| Total Current Assets | 14,190,051 |

Noncurrent Assets:

| | |
|--------------------------------------|------------|
| Restricted Cash and Cash Equivalents | 5,433,071 |
| Investments | 4,350,905 |
| Pledges Receivable, Net | 765,586 |
| Property and Equipment, Net | 31,559,647 |
| Land Held for Resale | 187,900 |
| Bond Issuance Costs | 2,868,156 |
| | <hr/> |
| Total Noncurrent Assets | 45,165,265 |

| | |
|--------------|-----------------------------|
| Total Assets | <u><u>\$ 59,355,316</u></u> |
|--------------|-----------------------------|

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|------------------------------------|------------|
| Accounts Payable | \$ 587,456 |
| Accrued Vacation | 207,729 |
| Due to NCA&T University | 23,081 |
| Deferred Revenue | 147,533 |
| Bonds Payable - Current Maturities | 1,360,000 |
| | <hr/> |
| Total Current Liabilities | 2,325,799 |

Long-Term Liabilities:

| | |
|------------------------------|------------|
| Interest Rate Swap Agreement | 1,120,681 |
| Bonds Payable - Long Term | 38,130,000 |
| | <hr/> |
| Total Liabilities | 41,576,480 |

NET ASSETS

| | |
|----------------------------------|-----------------------------|
| Unrestricted | 4,574,932 |
| Temporarily Restricted | 8,836,380 |
| Permanently Restricted | 4,367,524 |
| | <hr/> |
| Total Net Assets | 17,778,836 |
| | <hr/> |
| Total Liabilities and Net Assets | <u><u>\$ 59,355,316</u></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, 2014

Exhibit B-2

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| SUPPORT AND REVENUE | | | | |
| Contributions and Gifts | \$ 21,814 | \$ 2,141,854 | \$ 79,039 | \$ 2,242,707 |
| Rental Income | 7,029,264 | | | 7,029,264 |
| Fee Income | 298,843 | | | 298,843 |
| Interest and Dividends | 358,840 | 227,637 | 32,902 | 619,379 |
| Net Unrealized Gains on Investments | 757,604 | 558,690 | | 1,316,294 |
| Gain on Interest Rate Swap | 199,066 | | | 199,066 |
| Other Income | 44,494 | 187,516 | | 232,010 |
| Special Events | 275,000 | | | 275,000 |
| Net Assets Released From Restrictions | 3,390,169 | (3,267,961) | (122,208) | |
| Total Support and Revenue | <u>12,375,094</u> | <u>(152,264)</u> | <u>(10,267)</u> | <u>12,212,563</u> |
| EXPENSES | | | | |
| Program Services: | | | | |
| University Support | 3,705,259 | | | 3,705,259 |
| Student Housing | 5,510,906 | | | 5,510,906 |
| Total | <u>9,216,165</u> | | | <u>9,216,165</u> |
| Supporting Services: | | | | |
| Management and General | 1,359,522 | | | 1,359,522 |
| Fundraising | 204,069 | | | 204,069 |
| Total | <u>1,563,591</u> | | | <u>1,563,591</u> |
| Total Expenses | <u>10,779,756</u> | | | <u>10,779,756</u> |
| Changes in Net Assets | 1,595,338 | (152,264) | (10,267) | 1,432,807 |
| Net Assets as of Beginning of Year | <u>2,979,594</u> | <u>8,988,644</u> | <u>4,377,791</u> | <u>16,346,029</u> |
| Net Assets as of End of Year | <u>\$ 4,574,932</u> | <u>\$ 8,836,380</u> | <u>\$ 4,367,524</u> | <u>\$ 17,778,836</u> |

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

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NORTH CAROLINA AGRICULTURAL & TECHNICAL STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 & 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. See below for further discussion of the University's component unit.

Discretely Presented Component Unit – The North Carolina A&T University Foundation, Inc. (Foundation) is a legally separate nonprofit 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. 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 17 elected members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. 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, 2014, the Foundation distributed \$1,137,314.54 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from 200 North Benbow Road, Greensboro, NC 27411. The mailing address is P.O. Box 20366, Greensboro, NC 27420.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

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

- D. Cash and Cash Equivalents** - This classification includes 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 (STIF). The STIF maintained by the State Treasurer has

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The fair value for investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 10 to 25 years for equipment.

The Heritage Art Center and Art Gallery collections are capitalized at cost at date of acquisition 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, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, 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. The University amortizes bond premiums over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position - The University's net position is classified as follows:

Net Investment in Capital Assets - 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 Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

Unrestricted Net Position - Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position. 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 Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

N. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 student newspaper advertisements and the University One Card administrative fees. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$45,212,333.48 which represents the University's equity position in the State Treasurer's STIF. The STIF (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 1.3 years as of June 30, 2014. Assets and shares of the STIF 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 STIF) 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, 2014 was \$33,035.97. The carrying amount of the University's deposits not with the State Treasurer was \$3,825,495.18 and the bank balance was \$3,824,509.29. 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, 2014, \$3,491,478.38 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Investments

University - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

Additionally, the University has also been delegated authority by the President of The University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust 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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments are subject to the following risks.

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

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unitized method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased multiplied by the current unit market value. 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, 2014, for the Long-Term Investment Pool.

Long-Term Investment Pool

| Investment Type | Fair Value | Investment Maturities (in Years) | |
|--|------------------|----------------------------------|-----------------|
| | | Less Than 1 | 1 to 5 |
| Debt Securities | | | |
| Debt Mutual Funds | \$ 3,209,776.49 | \$ 0.00 | \$ 3,209,776.49 |
| Money Market Mutual Funds | 38,577.25 | 38,577.25 | |
| Total Debt Securities | 3,248,353.74 | \$ 38,577.25 | \$ 3,209,776.49 |
| Other Securities | | | |
| UNC Investment Fund | 22,413,816.94 | | |
| Equity Mutual Funds | 11,498,758.26 | | |
| Investments in Real Estate | 11,690.00 | | |
| Total Long-Term Investment Pool | \$ 37,172,618.94 | | |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2014, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

| | Fair Value | AAA Aaa | Unrated |
|---------------------------|-----------------|-----------------|--------------|
| Debt Mutual Funds | \$ 3,209,776.49 | \$ 3,209,776.49 | \$ 0.00 |
| Money Market Mutual Funds | 38,577.25 | | 38,577.25 |
| Totals | \$ 3,248,353.74 | \$ 3,209,776.49 | \$ 38,577.25 |

Rating Agency: Morningstar

UNC Investment Fund, LLC – At June 30, 2014, the University’s investments include \$22,413,816.94 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, does not have a credit rating, and is not subject to any regulatory oversight. 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 stock with a fair value of \$2,009.49 and an insurance policy with a cash surrender value of \$91,219.00.

Total Investments - The following table presents the fair value of the total investments at June 30, 2014:

| | Fair Value |
|--|-------------------------|
| Investment Type | |
| Debt Securities | |
| Debt Mutual Funds | \$ 3,209,776.49 |
| Money Market Mutual Funds | 38,577.25 |
| Other Securities | |
| UNC Investment Fund | 22,413,816.94 |
| Equity Mutual Funds | 11,498,758.26 |
| Investments in Real Estate | 11,690.00 |
| Domestic Stocks | 2,009.49 |
| Other - Insurance Policy Surrender Value | 91,219.00 |
| Total Investments | \$ 37,265,847.43 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Unit - Investments of the University's discretely presented component unit, The North Carolina A&T University Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The Foundation's investments include equity mutual funds administered by Charles Schwab in the amount of \$14,505,202 and stock in the amount of \$10,851.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2014, is as follows:

| | | |
|--|-----------|----------------------|
| Cash on Hand | \$ | 33,035.97 |
| Amount of Deposits with Private Financial Institutions | | 3,825,495.18 |
| Deposits in the Short-Term Investment Fund | | 45,212,333.48 |
| Long-Term Investment Pool | | 37,172,618.94 |
| Non-Pooled Investments | | 93,228.49 |
| | | <u>86,336,712.06</u> |
| Total Deposits and Investments | \$ | 86,336,712.06 |
| | | |
| Deposits | | |
| Current: | | |
| Cash and Cash Equivalents | \$ | 26,093,015.74 |
| Restricted Cash and Cash Equivalents | | 12,985,830.59 |
| Noncurrent: | | |
| Restricted Cash and Cash Equivalents | | 9,992,018.30 |
| | | <u>49,070,864.63</u> |
| Total Deposits | | 49,070,864.63 |
| | | |
| Investments | | |
| Current: | | |
| Short-Term Investments | | 91,219.00 |
| Noncurrent: | | |
| Endowment Investments | | 37,172,618.94 |
| Other Investments | | 2,009.49 |
| | | <u>37,265,847.43</u> |
| Total Investments | | 37,265,847.43 |
| | | <u>86,336,712.06</u> |
| Total Deposits and Investments | \$ | 86,336,712.06 |

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Institutional Funds Act” (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University’s endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on an adopted spending policy which limits spending to not more than 5% of the endowment’s average market value at December 31st for the prior twelve quarters. 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 position endowment balances to make up the difference. At June 30, 2014, net appreciation of \$9,121,701.71 was available to be spent, of which \$8,127,142.77 was classified in net position 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 position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---------------------------------------|-------------------------|---|-------------------------|
| Current Receivables: | | | |
| Students | \$ 1,637,724.41 | \$ 463,154.63 | \$ 1,174,569.78 |
| Accounts | 930,511.03 | 45,832.17 | 884,678.86 |
| Intergovernmental | 13,387,578.70 | | 13,387,578.70 |
| Pledges | 312,543.44 | | 312,543.44 |
| Interest on Loans | 173,015.31 | | 173,015.31 |
| Other | 737,612.50 | | 737,612.50 |
| Total Current Receivables | \$ 17,178,985.39 | \$ 508,986.80 | \$ 16,669,998.59 |
| Notes Receivable - Noncurrent: | | | |
| Federal Loan Programs | \$ 1,494,132.76 | \$ 657,883.80 | \$ 836,248.96 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

| | Balance July 1, 2013 (as restated) | Increases | Decreases | Balance June 30, 2014 |
|---|--|------------------------|------------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 9,883,878.43 | \$ 49,000.00 | \$ 0.00 | \$ 9,932,878.43 |
| Art, Literature, and Artifacts | 2,490,797.00 | | | 2,490,797.00 |
| Construction in Progress | 6,558,808.61 | 12,660,823.99 | 1,281,854.78 | 17,937,777.82 |
| Total Capital Assets, Nondepreciable | 18,933,484.04 | 12,709,823.99 | 1,281,854.78 | 30,361,453.25 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 356,564,364.52 | 2,644,103.70 | 135,100.00 | 359,073,368.22 |
| Machinery and Equipment | 57,584,975.55 | 5,039,521.92 | 3,781,663.06 | 58,842,834.41 |
| General Infrastructure | 19,109,945.79 | 7,081.91 | | 19,117,027.70 |
| Total Capital Assets, Depreciable | 433,259,285.86 | 7,690,707.53 | 3,916,763.06 | 437,033,230.33 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 96,254,994.17 | 7,235,199.53 | 132,688.00 | 103,357,505.70 |
| Machinery and Equipment | 28,032,530.62 | 3,365,373.50 | 2,503,394.86 | 28,894,509.26 |
| General Infrastructure | 6,062,816.52 | 582,474.39 | | 6,645,290.91 |
| Total Accumulated Depreciation | 130,350,341.31 | 11,183,047.42 | 2,636,082.86 | 138,897,305.87 |
| Total Capital Assets, Depreciable, Net | 302,908,944.55 | (3,492,339.89) | 1,280,680.20 | 298,135,924.46 |
| Capital Assets, Net | \$ 321,842,428.59 | \$ 9,217,484.10 | \$ 2,562,534.98 | \$ 328,497,377.71 |

During the year ended June 30, 2014, the University incurred \$382,781.26 in interest costs related to the acquisition and construction of capital assets. The total interest cost of \$382,781.26 was capitalized.

The University purchased a lot and house near the campus in fiscal year 2011 for \$131,250.00. The entire purchase cost was attributed to land; however, the University has developed plans to repurpose the house. Therefore, land and buildings have been restated by \$119,194.89, the pro-rated value of the house.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

| | Amount |
|---|------------------------|
| Current Accounts Payable and Accrued Liabilities | |
| Accounts Payable | \$ 5,347,685.78 |
| Accrued Payroll | 788,190.85 |
| Contract Retainage | 412,534.80 |
| Intergovernmental Payables | 208,122.78 |
| Total Current Accounts Payable and Accrued Liabilities | \$ 6,756,534.21 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

| | Balance July 1, 2013 (As Restated) | Additions | Reductions | Balance June 30, 2014 | Current Portion |
|------------------------------------|--|-------------------------|------------------------|--------------------------|------------------------|
| Revenue Bonds Payable | \$ 23,585,000.00 | \$ 0.00 | \$ 1,095,000.00 | \$ 22,490,000.00 | \$ 990,000.00 |
| Plus: Unamortized Premium | 1,045,176.64 | | 52,246.19 | 992,930.45 | |
| Total Revenue Bonds Payable, Net | <u>24,630,176.64</u> | | <u>1,147,246.19</u> | <u>23,482,930.45</u> | <u>990,000.00</u> |
| Notes Payable | | 4,183,984.78 | | 4,183,984.78 | |
| Compensated Absences | 9,611,073.00 | 6,208,194.00 | 6,325,390.00 | 9,493,877.00 | 579,160.00 |
| Total Long-Term Liabilities | <u>\$ 34,241,249.64</u> | <u>\$ 10,392,178.78</u> | <u>\$ 7,472,636.19</u> | <u>\$ 37,160,792.23</u> | <u>\$ 1,569,160.00</u> |

B. Revenue Bonds Payable - The University was indebted for revenue bonds payable for the purposes shown in the following table:

| Purpose | Series | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue | Principal Paid Through June 30, 2014 | Principal Outstanding June 30, 2014 |
|---|--------|-----------------------------|---------------------------|--------------------------------|--|---|
| Revenue Bonds Payable | | | | | | |
| <u>The University of North Carolina Revenue Bonds</u> | | | | | | |
| Student Health Center | 2013 | 2.00%-5.00% | 10/01/2037 | \$ 10,210,000.00 | \$ 200,000.00 | \$ 10,010,000.00 |
| <u>The University of North Carolina System Pool Revenue Bonds</u> | | | | | | |
| Parking System | (A) | 3.75%-5.00% | 10/01/2033 | 5,965,000.00 | 725,000.00 | 5,240,000.00 |
| Dining System | (A) | 3.75%-5.00% | 10/01/2020 | 7,525,000.00 | 3,235,000.00 | 4,290,000.00 |
| Stadium System | (B) | 2.00%-4.50% | 10/01/2031 | 3,365,000.00 | 415,000.00 | 2,950,000.00 |
| Parking System | (B) | 2.00% | 10/01/2013 | 260,000.00 | 260,000.00 | |
| Total The University of North Carolina System Pool Revenue Bonds | | | | <u>17,115,000.00</u> | <u>4,635,000.00</u> | <u>12,480,000.00</u> |
| Total Revenue Bonds Payable (principal only) | | | | <u>\$ 27,325,000.00</u> | <u>\$ 4,835,000.00</u> | 22,490,000.00 |
| Plus: Unamortized Premium | | | | | | <u>992,930.45</u> |
| Total Revenue Bonds Payable, Net | | | | | | <u>\$ 23,482,930.45</u> |

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2014, are as follows:

| Fiscal Year | Annual Requirements | | | |
|---------------------------|-------------------------|-------------------------|------------------------|------------------------|
| | Revenue Bonds Payable | | Notes Payable | |
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 990,000.00 | \$ 903,193.78 | \$ 0.00 | \$ 176,398.54 |
| 2016 | 1,035,000.00 | 868,831.28 | 229,716.22 | 150,619.79 |
| 2017 | 1,075,000.00 | 831,593.78 | 155,799.39 | 143,188.62 |
| 2018 | 1,125,000.00 | 793,500.03 | 171,341.56 | 137,250.44 |
| 2019 | 1,180,000.00 | 749,462.53 | 180,682.12 | 130,825.89 |
| 2020-2024 | 4,675,000.00 | 3,103,750.10 | 1,056,925.43 | 545,078.58 |
| 2025-2029 | 4,445,000.00 | 2,323,696.90 | 1,352,108.09 | 325,967.91 |
| 2030-2034 | 5,460,000.00 | 1,270,118.75 | 1,037,411.97 | 66,694.86 |
| 2035-2038 | 2,505,000.00 | 258,375.00 | | |
| Total Requirements | \$ 22,490,000.00 | \$ 11,102,522.15 | \$ 4,183,984.78 | \$ 1,676,024.63 |

D. Notes Payable - The University was indebted for notes payable for the purpose shown in the following table:

| Purpose | Financial Institution | Interest Rate | Final Maturity Date | Original Amount of Issue | Principal Paid Through June 30, 2014 | Principal Outstanding June 30, 2014 |
|-----------------------------|---------------------------------|---------------|---------------------|--------------------------|--------------------------------------|-------------------------------------|
| Energy Performance Contract | Capital One Public Funding, LLC | 3.68% | 09/01/2032 | \$ 4,183,984.78 | \$ 0.00 | \$ 4,183,984.78 |

COMPONENT UNIT

At June 30, 2014, the Foundation had \$39,490,000 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Bond issuance costs and bond discounts of \$3,914,439 associated with the advance refunding of 2001 Bonds are charged to operations using the straight-line method through the year 2035. Accumulated amortization of these bond issuance costs was \$1,541,885 at June 30, 2014.

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, 2014 is detailed as follows:

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|----------------------|
| 2015 | \$ 1,360,000 |
| 2016 | 1,415,000 |
| 2017 | 1,475,000 |
| 2018 | 1,535,000 |
| 2019 | 1,600,000 |
| Thereafter | <u>32,105,000</u> |
| | <u>\$ 39,490,000</u> |

The scheduled payments of principal and interest are guaranteed under a letter of credit agreement with Wells Fargo Bank for the 2004 bonds.

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

| <u>Fiscal Year</u> | <u>Amount</u> |
|-------------------------------------|----------------------|
| 2015 | \$ 165,934.92 |
| 2016 | 114,733.88 |
| 2017 | 20,400.48 |
| 2018 | <u>19,500.48</u> |
| Total Minimum Lease Payments | <u>\$ 320,569.76</u> |

Rental expense for all operating leases during the year was \$734,807.82.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|---|-------------------------|-----------------------------------|----------------------------------|---|-------------------------|
| Operating Revenues: | | | | | |
| Student Tuition and Fees | \$ 79,925,213.00 | \$ 0.00 | \$ 27,120,815.71 | \$ 332,086.56 | \$ 52,472,310.73 |
| Sales and Services: | | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | | |
| Residential Life | \$ 10,638,612.40 | \$ 0.00 | \$ 3,406,550.26 | \$ 53,742.98 | \$ 7,178,319.16 |
| Dining | 13,076,358.51 | | 4,262,660.86 | 65,351.33 | 8,748,346.32 |
| Student Union Services | 21,560.85 | | | | 21,560.85 |
| Health, Physical Education, and Recreation Services | 293,973.18 | | | | 293,973.18 |
| Bookstore | 1,740,663.51 | 7,871.43 | | | 1,732,792.08 |
| Parking | 1,601,864.00 | | | 15,283.73 | 1,586,580.27 |
| Athletic | 2,874,741.57 | | | | 2,874,741.57 |
| Other | 1,090,871.58 | | | | 1,090,871.58 |
| Sales and Services of Education and Related Activities | 2,252,523.03 | 1,939,954.96 | | | 312,568.07 |
| Total Sales and Services | \$ 33,591,168.63 | \$ 1,947,826.39 | \$ 7,669,211.12 | \$ 134,378.04 | \$ 23,839,753.08 |

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 | \$ 72,085,342.57 | \$ 2,027,744.98 | \$ 2,270,449.78 | \$ 1,195,065.22 | \$ 10,471.25 | \$ 0.00 | \$ 77,589,073.80 |
| Research | 18,176,354.59 | 2,606,749.67 | 6,140,420.25 | 1,778,675.63 | 351.18 | | 28,702,551.32 |
| Public Service | 6,224,147.71 | 334,142.60 | 1,565,944.86 | 64,497.92 | | | 8,188,733.09 |
| Academic Support | 14,893,957.13 | 3,953,681.04 | 4,255,288.68 | 574,159.05 | | | 23,677,085.90 |
| Student Services | 5,807,643.37 | 115,494.66 | 1,204,116.13 | 65,020.92 | | | 7,192,275.08 |
| Institutional Support | 17,454,018.63 | 1,361,936.34 | 6,302,534.28 | 281,616.11 | 3,668.19 | | 25,403,773.55 |
| Operations and Maintenance of Plant | 9,450,340.73 | 1,975,143.67 | 3,352,138.47 | | 3,860,981.78 | | 18,638,604.65 |
| Student Financial Aid | 316,635.71 | 26,996.15 | 126,989.86 | 12,054,668.59 | | | 12,525,290.31 |
| Auxiliary Enterprises | 15,481,982.72 | 2,154,230.88 | 18,072,856.52 | 3,414,740.24 | 1,528,181.27 | | 40,651,991.63 |
| Depreciation | | | | | | 11,183,047.42 | 11,183,047.42 |
| Total Operating Expenses | \$ 159,890,423.16 | \$ 14,556,119.99 | \$ 43,290,738.83 | \$ 19,428,443.68 | \$ 5,403,653.67 | \$ 11,183,047.42 | \$ 253,752,426.75 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) 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. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$125,745,012.15, of which \$64,416,518.84 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$5,597,795.49 and \$3,864,991.13, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$5,597,795.49, \$5,559,701.75, and \$4,988,312.34, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, 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 \$125,745,012.15, of which \$40,618,716.09 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,778,320.18 and \$2,437,122.97, 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, 2014, covered payroll was \$352,026.29, and total employer and employee contributions were \$24,641.84 each.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 established by the General Assembly.

For the current fiscal year the University contributed 5.40% 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, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$5,671,902.69, \$5,672,455.41, and \$5,259,208.44, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$462,155.03, \$470,920.83, and \$546,957.68, 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 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

Receipts-supported auxiliary units purchased extended or broad form coverage through the Fund. The University purchased extended coverage for both the building and contents for the cafeteria in the amount of \$26,528,379. Broad form coverage on buildings and contents totaled \$161,444,016 for residence halls, \$2,470,524 for the hazardous materials facility, and \$7,715,398 for campus recreation buildings. The University also carried insurance in the amount of \$525,000 on the contents of Brown Hall, which houses the ticket office, mail center, and bookstore. All risk insurance in the amount of \$4,371,988 was purchased for certain equipment located in Paul Robeson

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The types of insurance policies purchased include medical malpractice, accident coverage for students participating in University athletic events, boiler and machinery, fine artwork for the collections housed in the University's galleries, musical instruments owned by the University, summer camps, student study abroad, master crime, master honesty, and master mobile equipment.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$9,773,927.06 and on other purchases were \$9,302,541.32 at June 30, 2014.
- B. Pending Litigation and Claims** - 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 are as follows:

| Purpose | Amount |
|-----------------------|-----------------|
| Pledges to Endowments | \$ 2,149,210.96 |

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2014, the University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued by the Governmental Accounting Standards Board (GASB). This standard requires reclassification of certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. Additional changes included in this standard had no effect on the University.

NOTE 16 - SUBSEQUENT EVENT

In September 2014, the University entered into an Energy Savings Improvement Financing and Debt Service Funding Agreement with the UNC Board of Governors. This agreement stipulates that the University will be

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

responsible for paying its portion of the system-wide debt. The debt will be used to fund an energy savings project consisting of replacing or retrofitting existing light fixtures, the purchase of replacement light bulbs, and the installation of lighting controls sensors in various buildings and recreational facilities across campus. The University's obligation will be \$2,059,800.72 and will be recorded as a long-term liability in fiscal year 2015 with repayment scheduled to begin in May 2016.

Office of the State Auditor

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State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina Agricultural & Technical State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 11, 2014. Our report includes a reference to other auditors who audited the financial statements of The North Carolina A&T University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of The North Carolina A&T University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 11, 2014

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

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For additional information contact:

Bill Holmes

Director of External Affairs