



# STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE  
UNIVERSITY**

**GREENSBORO, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE  
UNIVERSITY**

**GREENSBORO, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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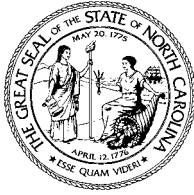
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STATE OF NORTH CAROLINA  
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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, North Carolina Agricultural and Technical State University

We have completed a financial statement audit of North Carolina Agricultural and Technical State University for the year ended June 30, 2008, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a certain deficiency that is detailed in the Audit Findings and Responses section of this report. The University's response is included following the finding.

*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.

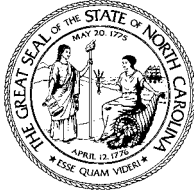
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**Beth A. Wood, CPA**  
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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of North Carolina Agricultural and 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, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. 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 financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for The North Carolina A&T University Foundation, Inc., are based 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 of material misstatement. The financial statements of The North Carolina A&T University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Agricultural and Technical State University and its discretely presented component unit as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

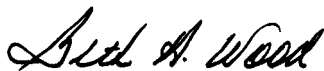
## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2009 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

January 8, 2009

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

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## **Overview of the Financial Statements and Financial Analysis**

North Carolina Agricultural and Technical State University (hereinafter referred to as the "University") provides the following Management's Discussion and Analysis as an overview of the financial activities for the fiscal year ended June 30, 2008. Comparative data for the year ended June 30, 2007 is also included. Information contained herein has been prepared by University staff for the purpose of identifying significant transactions, trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the related financial statements and notes to the financial statements.

## **The Financial Statements**

The financial statements of the University include:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows

These statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles and reflect an economic resource measurement focus and the accrual basis of accounting. Management's discussion and analysis will concentrate on the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, using condensed versions for the purposes of this discussion.

## **Statement of Net Assets**

The Statement of Net Assets presents the financial position of the University at June 30, 2008, defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: investment in capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as nonexpendable or expendable. Endowments and loan funds comprise the nonexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

Some highlights of the University's Statement of Net Assets are listed below:

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Change</u>
<b>Assets</b>				
Current Assets	\$ 64,355,565.94	\$ 61,381,418.94	\$ 2,974,147.00	5 %
Noncurrent Capital Assets, Net of Accumulated Depreciation	283,998,651.38	265,544,680.79	18,453,970.59	7 %
Other Noncurrent Assets	<u>53,392,663.98</u>	<u>63,196,133.70</u>	<u>(9,803,469.72)</u>	(16) %
<b>Total Assets</b>	<u>401,746,881.30</u>	<u>390,122,233.43</u>	<u>11,624,647.87</u>	3 %
<b>Liabilities</b>				
Current Liabilities	14,224,078.14	14,486,016.79	(261,938.65)	(2) %
Noncurrent Liabilities	<u>23,920,371.86</u>	<u>26,754,234.08</u>	<u>(2,833,862.22)</u>	(11) %
<b>Total Liabilities</b>	<u>38,144,450.00</u>	<u>41,240,250.87</u>	<u>(3,095,800.87)</u>	(8) %
<b>Net Assets</b>				
Investment in Capital Assets, Net of Related Debt	266,819,275.19	247,124,680.79	19,694,594.40	8 %
Restricted - Nonexpendable	13,135,953.09	10,845,326.18	2,290,626.91	21 %
Restricted - Expendable	43,581,095.77	54,949,178.27	(11,368,082.50)	(21) %
Unrestricted	<u>40,066,107.25</u>	<u>35,962,797.32</u>	<u>4,103,309.93</u>	11 %
<b>Total Net Assets</b>	<u>\$ 363,602,431.30</u>	<u>\$ 348,881,982.56</u>	<u>\$ 14,720,448.74</u>	4 %

- The increase of \$2,974,147.00 in current assets is primarily due to an increase in unrestricted cash and cash equivalents totaling \$1,845,689.66 and an increase in inventory of \$750,896.92. The increases in cash occurred primarily because of an increase in cash held by the auxiliaries of \$1,761,126.08 resulting from operations. The inventory increase resulted from the implementation of the University's new two year book adoption policy.
- Noncurrent assets increased by \$8,650,500.87. Large construction projects funded by State grants were nearing completion at June 30, 2008, resulting in a decrease in the receivable from the State of \$19,235,854.90. These large construction projects that reached completion after the end of the fiscal year also account for most of the increase in noncurrent net capital assets of \$18,453,970.59. The decrease in the receivable from the state was offset by an increase in noncurrent cash of \$9,866,706.94. The increase in cash was attributed primarily to increases in cash balances in the Endowment and Capital Improvement funds. Endowment cash increased by \$1,932,144.05 from gifts received during the year and cash held for capital improvement projects increased by \$7,923,172.30.
- Noncurrent liabilities decreased by \$2,833,862.22, primarily due to a decrease in long-term liabilities of \$2,354,875.25, resulting largely from the payment of bonds in the amount of \$1,135,000.00 and a decrease of \$1,195,328.08 in compensated absences.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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- Net assets invested in capital assets increased \$19,694,594.40, resulting from an increase of \$16,410,478.31 in construction in progress as several large projects neared completion at June 30, 2008. Expendable net assets for capital projects decreased by \$11,728,724.56, primarily the net of the decrease in the amount due from the State for bond-funded projects and the increase in cash held for capital projects.

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

The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues (expenses), and other revenues, expenses, gains or losses. Revenues are reported by major source and expenses are reported by natural classification. Intradepartmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded. In order to enhance comparability, the revenues and expenses for 2007 have been restated.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2008	Restated 2007	Increase (Decrease)
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 46,965,544.49	\$ 52,261,587.52	\$ (5,296,043.03)
Grants and Contracts	38,277,961.70	37,235,591.50	1,042,370.20
Federal Appropriations	5,648,169.39	4,479,086.69	1,169,082.70
Sales and Services, Net	22,962,558.89	25,066,770.58	(2,104,211.69)
Other Operating Revenues	1,853,035.56	1,693,827.24	159,208.32
<b>Total Operating Revenues</b>	<u>115,707,270.03</u>	<u>120,736,863.53</u>	<u>(5,029,593.50)</u>
<b>Operating Expenses</b>			
Salaries and Benefits	137,428,501.26	129,818,336.20	7,610,165.06
Supplies and Materials	22,635,330.94	25,103,046.46	(2,467,715.52)
Services	39,353,873.48	37,954,265.12	1,399,608.36
Scholarships and Fellowships	11,026,884.14	14,768,838.42	(3,741,954.28)
Utilities	5,681,945.70	4,996,575.53	685,370.17
Depreciation	10,078,505.89	9,534,085.69	544,420.20
<b>Operating Expenses</b>	<u>226,205,041.41</u>	<u>222,175,147.42</u>	<u>4,029,893.99</u>
<b>Operating Loss</b>	<u>(110,497,771.38)</u>	<u>(101,438,283.89)</u>	<u>(9,059,487.49)</u>
<b>Nonoperating Revenues (Expenses)</b>			
State Appropriations	99,373,082.08	89,056,885.06	10,316,197.02
Noncapital Grants and Gifts	8,895,243.96	9,711,266.87	(816,022.91)
Other Nonoperating Expenses	(1,162,992.78)	(1,221,051.93)	58,059.15
Investment Income	1,930,352.23	3,835,348.19	(1,904,995.96)
<b>Net Nonoperating Revenues</b>	<u>109,035,685.49</u>	<u>101,382,448.19</u>	<u>7,653,237.30</u>
<b>Loss Before Other Revenues</b>	<u>(1,462,085.89)</u>	<u>(55,835.70)</u>	<u>(1,406,250.19)</u>
<b>Other Revenues</b>			
Capital Appropriations and Grants	13,878,706.34	60,359,052.22	(46,480,345.88)
<b>Income Before Additions to Endowments</b>	12,416,620.45	60,303,216.52	(47,886,596.07)
Additions to Permanent Endowments	2,303,828.29	1,057,720.54	1,246,107.75
<b>Total Increase in Net Assets</b>	<u>14,720,448.74</u>	<u>61,360,937.06</u>	<u>(46,640,488.32)</u>
Net Assets - Beginning of the Year	<u>348,881,982.56</u>	<u>287,521,045.50</u>	<u>61,360,937.06</u>
Net Assets - End of the Year	<u>\$ 363,602,431.30</u>	<u>\$ 348,881,982.56</u>	<u>\$ 14,720,448.74</u>

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

- Operating revenues decreased by \$5,029,593.50. A decline in enrollment for the 2008 fiscal year was the primary cause of the decrease.
- Net nonoperating revenues increased by \$7,653,237.30. The University received an increase in State appropriations of approximately \$10,316,197.02 to cover operating

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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budget increases and to fund new programs. Also, investment income decreased by \$1,904,995.96 as the market experienced a year of decreases in stock values. Interest expense, loss on asset disposals, and a decrease in noncapital grants also offset the increase in State appropriations.

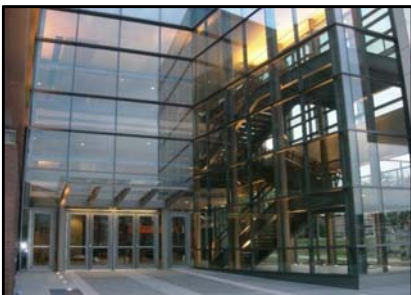
- The decrease in other revenues of \$46,480,345.88 was largely due to a decrease in capital grants and gifts of \$51,938,445.88 offset by an increase in capital appropriations of \$5,458,100.00. Large construction projects that required significant amounts of grant funds in 2007 were nearing completion in 2008, greatly decreasing the need for state and federal grant monies. The State increased capital appropriations for the commitment towards the construction of a campus for the School of Nanotechnology.

The University presents expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 60.75% of operating expenses, followed by services at 17.40%, supplies and materials at 10.01%, scholarships at 4.87%, depreciation at 4.46%, and utility costs at 2.51%.

The increase in operating costs of \$4,029,893.99 is attributed primarily to increases in payroll charges and expenses for utilities and services. Payroll expenses increased by \$7,610,165.06 as a result of a 4% payroll raise granted by the State legislature and the creation of new positions. The increases in payroll, utilities, and services were offset by decreases in supplies and materials of \$2,467,715.52 and financial aid of \$3,741,954.28.

### Capital Assets and Debt Administration

The cost of construction projects continued to exert significant influence on the University's financial statements for 2008 and will continue to do so through 2009. Since the passage in



Pictured above is the entrance to the new School of Education facility that was completed in August of 2008.

November 2000 of a \$2.5 billion bond package for the improvement and expansion of facilities on the 16 campuses of the University of North Carolina system, the University has received over \$143,822,092.98 in State construction grants financed by the bond proceeds. All twenty-two of the University's bond-funded projects were under design, in the construction phase or completed at June 30, 2008. During 2008 the University completed a major renovation project, totaling \$4,398,704.01, for Gibbs Hall. In addition, projects totaling \$29,684,184.53 are scheduled for completion in fiscal year 2009.

Long-term debt totaled \$17,285,000 at June 30, 2008. The University reduced outstanding debt by principal payments of \$1,135,000 during the year.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Economic Forecast**

The University experienced a decline in enrollment during fiscal year 2008 and anticipates a decrease in tuition and fee receipts as well as sales and services. It is anticipated that enrollment will remain relatively flat over the next year and then begin a trend of slow but steady growth again by the year 2010 fiscal year. The level enrollment figures will result in only small increases in state appropriations, if any, during this period

State appropriations comprised approximately 41% of the University's annual revenues during fiscal year 2008. Current national economic events have impacted State revenues to the extent that a 3% decrease of the authorized budget for fiscal year 2009 is anticipated. 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.

***North Carolina Agricultural and Technical State University***  
***Statement of Net Assets***  
***June 30, 2008***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 39,387,467.70
Restricted Cash and Cash Equivalents	13,434,965.03
Receivables, Net (Note 4)	8,854,591.19
Due from State of North Carolina Component Units	60,000.00
Due from University Component Units	32,668.64
Inventories	2,316,993.05
Notes Receivable, Net (Note 4)	268,880.33
	<hr/>
Total Current Assets	64,355,565.94

Noncurrent Assets:

Restricted Cash and Cash Equivalents	19,198,332.31
Receivables (Note 4)	266,883.44
Restricted Due from Primary Government	20,013,588.39
Endowment Investments	12,609,742.56
Other Investments	1,716.32
Notes Receivable, Net (Note 4)	1,302,400.96
Capital Assets - Nondepreciable (Note 5)	46,768,788.88
Capital Assets - Depreciable, Net (Note 5)	237,229,862.50
	<hr/>
Total Noncurrent Assets	337,391,315.36

Total Assets	<hr/> 401,746,881.30
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	7,582,567.72
Due to Primary Government	70,073.59
Unearned Revenue	4,425,126.22
Interest Payable	221,514.08
Long-Term Liabilities - Current Portion (Note 7)	1,924,796.53
	<hr/>
Total Current Liabilities	14,224,078.14

Noncurrent Liabilities:

Funds Held for Others	82,440.29
U. S. Government Grants Refundable	1,210,017.32
Long-Term Liabilities (Note 7)	22,627,914.25
	<hr/>
Total Noncurrent Liabilities	23,920,371.86

Total Liabilities	<hr/> 38,144,450.00
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***North Carolina Agricultural and Technical State University***  
***Statement of Net Assets***  
***June 30, 2008***

***Exhibit A-1***  
***Page 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	266,819,275.19
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	7,499,778.09
Endowed Professorships	5,283,208.84
Departmental Uses	73,079.31
Loans	279,886.85
Expendable:	
Scholarships and Fellowships	3,317,300.77
Research	60,905.68
Endowed Professorships	1,394,294.94
Departmental Uses	4,736,632.27
Capital Projects	34,071,962.11
Unrestricted	40,066,107.25
Total Net Assets	<u>\$ 363,602,431.30</u>

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

***North Carolina Agricultural and Technical State University***  
***Statement of Revenues, Expenses, and***  
***Changes in Net Assets***  
***For the Fiscal Year Ended June 30, 2008***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 46,965,544.49
Federal Appropriations	5,648,169.39
Federal Grants and Contracts	35,433,382.85
State and Local Grants and Contracts	1,102,177.64
Nongovernmental Grants and Contracts	1,742,401.21
Sales and Services, Net (Note 9)	22,962,558.89
Interest Earnings on Loans	3,308.78
Other Operating Revenues	1,849,726.78

Total Operating Revenues	115,707,270.03
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	137,428,501.26
Supplies and Materials	22,635,330.94
Services	39,353,873.48
Scholarships and Fellowships	11,026,884.14
Utilities	5,681,945.70
Depreciation	10,078,505.89

Total Operating Expenses	226,205,041.41
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Operating Loss	(110,497,771.38)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	99,373,082.08
Noncapital Grants	7,965,377.53
Noncapital Gifts	929,866.43
Investment Income (Net of Investment Expense of \$43,388.39)	1,930,352.23
Interest and Fees on Debt	(943,753.75)
Other Nonoperating Expenses	(219,239.03)

Net Nonoperating Revenues	109,035,685.49
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Loss Before Other Revenues	(1,462,085.89)
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Capital Appropriations	13,338,800.00
Capital Grants	539,906.34
Additions to Endowments	2,303,828.29

Increase in Net Assets	14,720,448.74
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**NET ASSETS**

Net Assets - July 1, 2007	348,881,982.56
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Net Assets - June 30, 2008	\$ 363,602,431.30
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The accompanying notes to the financial statements are an integral part of this statement.

**North Carolina Agricultural and Technical State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2008**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 113,511,269.80
Payments to Employees and Fringe Benefits	(138,961,136.74)
Payments to Vendors and Suppliers	(68,176,059.08)
Payments for Scholarships and Fellowships	(11,026,884.14)
Loans Issued	(501,350.00)
Collection of Loans	242,888.74
Interest Earned on Loans	85,942.26
Student Deposits Received	81,051.33
Student Deposits Returned	(15,680.00)
Other Receipts	1,784,355.45
	<hr/>
Net Cash Used by Operating Activities	(102,975,602.38)

State Appropriations	99,373,082.08
Noncapital Grants	8,079,353.61
Noncapital Gifts	942,926.43
Additions to Endowments	2,303,828.29
William D. Ford Direct Lending Receipts	45,591,480.00
William D. Ford Direct Lending Disbursements	(45,591,480.00)
Related Activity Agency Receipts	79,885.61
Related Activity Agency Disbursements	(54,218.24)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	110,724,857.78

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

State Capital Appropriations	13,338,800.00
Capital Grants	19,775,761.24
Acquisition and Construction of Capital Assets	(28,876,177.81)
Principal Paid on Capital Debt and Leases	(1,135,000.00)
Interest and Fees Paid on Capital Debt and Leases	(915,113.42)
Other Payments	(59,437.38)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	2,128,832.63

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	3,750,421.36
Investment Income	3,197,806.59
Purchase of Investments and Related Fees	(4,333,558.27)
	<hr/>
Net Cash Provided by Investing Activities	2,614,669.68
	<hr/>
Net Increase in Cash and Cash Equivalents	12,492,757.71
Cash and Cash Equivalents - July 1, 2007	59,528,007.33
	<hr/>
Cash and Cash Equivalents - June 30, 2008	\$ 72,020,765.04





***The North Carolina A&T University Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2008***

***Exhibit B-1***

**ASSETS**

Current Assets

Cash and Cash Equivalents	\$ 1,242,230
Investments	3,021,719
Unconditional Promises to Give	697,506
Accounts Receivable - NCA&TSU	297,954
Other Current Assets	343,456

Total Current Assets	5,602,865
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Restricted Deposits

Bond Operating Reserve Fund	501,384
Bond Interest Fund	34,468
Bond Surplus Fund	431,152
Bond Repair and Replacement Fund	83,070
Bond Taxes and Insurance Fund	197,847
Bond Operation and Maintenance Fund	131,135
Bond Debt Service Fund	3,196,461
Bond Fund Principal Fund	3,519
Bond Pledged Revenue Fund	76,017
Bond QEA Fund	18,500

Total Restricted Deposits	4,673,553
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Endowment Investments

Investments	3,893,330
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Total Endowment Investments	3,893,330
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Property, Furniture and Equipment, at Cost, Net	36,603,042
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Long-term Unconditional Promises to Give, Less	
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Allowance for Uncollectible Promises of \$41,250 for 2008	530,845
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Other Assets	3,957,042
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Total Assets	\$ 55,260,677
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**LIABILITIES AND NET ASSETS**

Current Liabilities

Current Maturities of Bonds Payable	\$ 1,090,000
Accounts Payable	94,901
Other Liabilities	273,186

Total Current Liabilities	1,458,087
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Long-Term Liabilities

Bonds Payable, Less Current Maturities	45,555,000
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Total Liabilities	47,013,087
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***The North Carolina A&T University Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2008***

***Exhibit B-1***  
***Page 2***

**NET ASSETS**

Unrestricted:	
Operating	(447,379)
Fixed Assets	<u>98,355</u>
Total Unrestricted	(349,024)
Temporarily Restricted	4,391,521
Permanently Restricted	<u>4,205,093</u>
Total Net Assets	<u>8,247,590</u>
Total Liabilities and Net Assets	<u><u>\$ 55,260,677</u></u>

See accompanying notes to the financial statements.

**North Carolina A&T University Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2008**

**Exhibit B-2**

	<u>Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>PUBLIC SUPPORT, REVENUES AND RECLASSIFICATION</b>				
Contributions				
Foundations and Corporations	\$ 14,392	\$ 1,954,299	\$ 26,263	\$ 1,994,954
Board of Directors	12,550	9,350	2,201	24,101
Individuals/Friends	28,418	1,100,153	215,784	1,344,355
Interest and Dividends	337,373	99,658	130,420	567,451
Administrative Fee	100,522			100,522
Miscellaneous	223	242,070		242,293
Unrealized Loss from Investments	(350,876)	(537,538)		(888,414)
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	2,471,988	(2,471,988)		
Rental Income	6,236,404			6,236,404
Management Fees	261,820			261,820
Fundraising	141,077			141,077
Total Public Support, Revenues and Reclassifications	<u>9,253,891</u>	<u>396,004</u>	<u>374,668</u>	<u>10,024,563</u>
<b>EXPENSES</b>				
Programs:				
Scholarships:				
Scholarships-Unrestricted	98,468			98,468
Scholarships-Departmental	942,415			942,415
Total Scholarships	1,040,883			1,040,883
Academic Departmental Programs	1,529,573			1,529,573
Administration	885,617			885,617
Student Housing	6,280,244			6,280,244
Transfer to NCA&TSU and Promises to Give Write-Offs			25,000	25,000
Total Expenses	<u>9,736,317</u>		<u>25,000</u>	<u>9,761,317</u>
Changes in Net Assets	(482,426)	396,004	349,668	263,246
Net Assets as of Beginning of Year	<u>133,402</u>	<u>3,995,517</u>	<u>3,855,425</u>	<u>7,984,344</u>
Net Assets as of End of Year	<u>\$ (349,024)</u>	<u>\$ 4,391,521</u>	<u>\$ 4,205,093</u>	<u>\$ 8,247,590</u>

See accompanying notes to financial statements.

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina Agricultural and Technical State University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** - The North Carolina A&T University Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The North Carolina A&T University Foundation, Inc. is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 16 elected members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2008, the Foundation distributed \$1,158,805.79 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the North Carolina A&T University Foundation, Inc., located at 200 North Benbow Road, Greensboro, North Carolina 27411. The mailing address is P.O. Box 20366, Greensboro, North Carolina 27420.

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

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

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

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net decrease in the fair value of investments is recognized as a component of investment income.

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

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

- F. Receivables** - Receivables consist of tuition and 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using average cost of last invoice price, first-in, first-out method or, in the case of agricultural supplies inventory, current market value. Merchandise for resale is valued using the first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 10 to 50 years for buildings, and 5 to 15 years for equipment.

The Heritage Center and Art Gallery collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

**L. Net Assets** - The University's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt** - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**Restricted Net Assets - Nonexpendable** - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

**Restricted Net Assets - Expendable** - Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Unrestricted Net Assets** - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

**M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

**N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 central stores, motor pool, postal services, bookstore, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$71,963,143.44 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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(which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2008 was \$44,652.50. The carrying amount of the University's deposits not with the State Treasurer was \$12,969.10 and the bank balance was \$12,717.12. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2008, the University's bank balance was not exposed to custodial credit risk.

### **B. Investments**

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

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk.

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the percentage method. Under this method, each participating fund's investment balance is determined on its percentage of the fund on the first of the month. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the Long-Term Investment Pool.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Long-Term Investment Pool*

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Agencies	\$ 358,281.00	\$ 100,250.00	\$ 155,015.50	\$ 103,015.50
Mutual Bond Funds	1,419,560.39		1,372,653.78	46,906.61
Money Market Mutual Funds	505,645.32	505,645.32		
Domestic Corporate Bonds	511,669.50	<u>100,225.50</u>	<u>411,444.00</u>	
		<u>\$ 706,120.82</u>	<u>\$ 1,939,113.28</u>	<u>\$ 149,922.11</u>
Other Securities				
International Mutual Funds	1,427,677.88			
Other Mutual Funds	5,663,248.30			
Investments in Real Estate	11,690.00			
Real Estate Investment Trust	43,196.37			
Hedge Funds	3,801.37			
Domestic Stocks	2,445,077.73			
Foreign Stocks	<u>219,894.70</u>			
Total Long-Term Investment Pool	<u>\$ 12,609,742.56</u>			

At June 30, 2008, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	Unrated
U.S. Agencies	\$ 358,281.00	\$ 358,281.00	\$ 0.00	\$ 0.00	\$ 0.00
Mutual Bond Funds	1,419,560.39	1,419,560.39			
Money Market Mutual Funds	505,645.32				505,645.32
Domestic Corporate Bonds	511,669.50	50,360.00	307,405.50	153,904.00	

Rating Agency: Moody's  
Mutual Funds: Morningstar

**Non-Pooled Investments** - At year end, the University held a money market fund investment with a fair value of \$270.80 and a maturity of less than one year. The fund is unrated. Also, the University held domestic stocks with a fair value of \$1,445.52.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Total Investments** - The following table presents the fair value of the total investments at June 30, 2008:

Investment Type	Fair Value
Debt Securities	
U.S. Agencies	\$ 358,281.00
Mutual Bond Funds	1,419,560.39
Money Market Funds	505,916.12
Domestic Corporate Bonds	511,669.50
Other Securities	
International Mutual Funds	1,427,677.88
Other Mutual Funds	5,663,248.30
Investments in Real Estate	11,690.00
Real Estate Investment Trust	43,196.37
Hedge Funds	3,801.37
Domestic Stocks	2,446,523.25
Foreign Stocks	219,894.70
Total Investments	\$ 12,611,458.88

**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. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type: The Foundation's investments include mutual funds administered by Wachovia Bank in the amount of \$6,899,915 and stock in the amount of \$15,134. The total amount of investments for the North Carolina A&T University Foundation, Inc. is \$6,915,049.

### 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.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to not more than 5% of the endowment principal's average market value at December 31st for the past three years. To the extent that the total return for the current year exceeds the payout, the excess is added to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2008, net appreciation of \$2,374,258.12 was available to be spent, of which \$2,264,999.19 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 1,392,762.77	\$ 574,709.81	\$ 818,052.96
Accounts	621,201.62	111,695.77	509,505.85
Intergovernmental	6,518,206.73		6,518,206.73
Pledges	140,000.00		140,000.00
Investment Earnings	212,092.78		212,092.78
Interest on Loans	124,234.60		124,234.60
Other	532,498.27		532,498.27
<b>Total Current Receivables</b>	<u>\$ 9,540,996.77</u>	<u>\$ 686,405.58</u>	<u>\$ 8,854,591.19</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 266,883.44</u>	<u>\$ 0.00</u>	<u>\$ 266,883.44</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	<u>\$ 408,067.98</u>	<u>\$ 139,187.65</u>	<u>\$ 268,880.33</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 1,751,060.07</u>	<u>\$ 448,659.11</u>	<u>\$ 1,302,400.96</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 8,871,986.09	\$ 17,222.33	\$ 0.00	\$ 8,889,208.42
Art, Literature, and Artifacts	2,502,077.00			2,502,077.00
Construction in Progress	18,967,025.15	20,229,635.52	3,819,157.21	35,377,503.46
<b>Total Capital Assets, Nondepreciable</b>	<b>30,341,088.24</b>	<b>20,246,857.85</b>	<b>3,819,157.21</b>	<b>46,768,788.88</b>
Capital Assets, Depreciable:				
Buildings	263,783,360.58	7,186,572.88	109,213.75	270,860,719.71
Machinery and Equipment	42,366,437.14	5,078,004.61	927,053.51	46,517,388.24
General Infrastructure	14,775,435.29			14,775,435.29
<b>Total Capital Assets, Depreciable</b>	<b>320,925,233.01</b>	<b>12,264,577.49</b>	<b>1,036,267.26</b>	<b>332,153,543.24</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	57,247,474.64	5,291,029.40	26,388.46	62,512,115.58
Machinery and Equipment	25,829,163.45	4,313,008.89	850,077.15	29,292,095.19
General Infrastructure	2,645,002.37	474,467.60		3,119,469.97
<b>Total Accumulated Depreciation</b>	<b>85,721,640.46</b>	<b>10,078,505.89</b>	<b>876,465.61</b>	<b>94,923,680.74</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>235,203,592.55</b>	<b>2,186,071.60</b>	<b>159,801.65</b>	<b>237,229,862.50</b>
<b>Capital Assets, Net</b>	<b>\$ 265,544,680.79</b>	<b>\$ 22,432,929.45</b>	<b>\$ 3,978,958.86</b>	<b>\$ 283,998,651.38</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 3,496,611.30
Accrued Payroll	2,481,225.82
Contract Retainage	1,363,282.86
Intergovernmental Payables	103,766.17
Other	137,681.57
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 7,582,567.72</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	\$ 18,420,000.00	\$ 0.00	\$ 1,135,000.00	\$ 17,285,000.00	\$ 1,200,000.00
Add/Deduct Premium/Discount	455,376.87		34,215.08	421,161.79	
Deduct Deferred Charge on Refunding	(601,453.51)		(74,667.91)	(526,785.60)	
<b>Total Bonds Payable</b>	<b>18,273,923.36</b>		<b>1,094,547.17</b>	<b>17,179,376.19</b>	<b>1,200,000.00</b>
Compensated Absences	8,207,874.80	5,322,659.77	6,157,199.98	7,373,334.59	724,796.53
<b>Total Long-Term Liabilities</b>	<b>\$ 26,481,798.16</b>	<b>\$ 5,322,659.77</b>	<b>\$ 7,251,747.15</b>	<b>\$ 24,552,710.78</b>	<b>\$ 1,924,796.53</b>

#### 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, 2008	Principal Outstanding June 30, 2008	See Table Below
<b>Revenue Bonds Payable</b>							
<b>The University of North Carolina System Pool Revenue Bonds</b>							
Student Union (A)	1998B	3.25-5.25	10/01/2013	\$ 5,860,000.00	\$ 5,440,000.00	\$ 420,000.00	(1)
Parking System (A)	1998B	3.25-5.25	10/01/2013	1,465,000.00	760,000.00	705,000.00	(2)
Stadium System - Student Fees (B)	2000	5.0-5.25	10/01/2020	1,555,000.00	755,000.00	800,000.00	(3)
Student Union (C)	2005A	3.00-4.89	04/01/2014	2,395,000.00	30,000.00	2,365,000.00	
Parking Deck (D)	2006B	3.75-5.00	10/01/2033	5,965,000.00	90,000.00	5,875,000.00	
Dining System Refunding (D)	2006B	3.75-5.00	10/01/2020	7,525,000.00	405,000.00	7,120,000.00	
Total UNC System Pool Revenue Bonds				<u>24,765,000.00</u>	<u>7,480,000.00</u>	<u>17,285,000.00</u>	
Total Bonds Payable (principal only)				<u>\$ 24,765,000.00</u>	<u>\$ 7,480,000.00</u>		
Less: Unamortized Loss on Refunding						(526,785.60)	
Less: Unamortized Discount						(3,702.63)	
Plus: Unamortized Premium						424,864.42	
Total Bonds Payable						<u>\$ 17,179,376.19</u>	

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

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

(C) The University of North Carolina System Pool Revenue Bonds, Series 2005A

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Student Union Debt Fee	488,603.13	902,810.57	545,206.26	60%
(2)	Parking Fees	817,046.90	717,963.70	136,418.76	19%
(3)	Stadium System	911,075.00	350,715.16	174,925.00	50%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2008, are as follows:

Fiscal Year	Annual Requirements Revenue Bonds Payable	
	Principal	Interest
2009	\$ 1,200,000.00	\$ 801,353.15
2010	1,240,000.00	698,900.02
2011	1,285,000.00	648,446.89
2012	1,345,000.00	590,031.26
2013	1,400,000.00	528,675.01
2014-2018	4,090,000.00	1,959,262.55
2019-2023	2,835,000.00	1,185,008.17
2024-2028	1,200,000.00	823,725.00
2029-2033	2,185,000.00	402,425.00
2034-2038	505,000.00	12,400.00
<b>Total Requirements</b>	<b>\$ 17,285,000.00</b>	<b>\$ 7,650,227.05</b>

**D. Prior Year Defeasances** – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University’s financial statements. At June 30, 2008, the outstanding balance of prior year defeased bonds was \$9,910,000.00.

**E. Component Unit** - The North Carolina A&T University Foundation, Inc., issued bonds to finance the construction of student housing. Bonds payable for the Foundation at June 30, 2008 were \$45,555,000.00.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LEASE OBLIGATIONS

**Operating 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, 2008:

Fiscal Year	Amount
2009	\$ 248,793.80
2010	79,931.80
Total Minimum Lease Payments	\$ 328,725.60

Rental expense for all operating leases during the year was \$450,673.90.

### 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
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 59,849,132.83	\$ 0.00	\$ 12,336,596.65	\$ 546,991.69	\$ 46,965,544.49
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 8,756,098.17	\$ 0.00	\$ 1,655,457.22	\$ 64,476.56	\$ 7,036,164.39
Dining	8,311,348.54		1,618,486.35	63,564.94	6,629,297.25
Student Union Services	32,009.64				32,009.64
Health, Physical Education, and Recreation Services	1,508.40				1,508.40
Bookstore	6,088,680.09	207,973.84		33.18	5,880,673.07
Parking	944,138.81			111,696.00	832,442.81
Athletic	2,031,009.42				2,031,009.42
Other	373,090.58				373,090.58
Sales and Services of Education and Related Activities	2,095,300.04	1,941,512.51		7,424.20	146,363.33
<b>Total Sales and Services</b>	\$ 28,633,183.69	\$ 2,149,486.35	\$ 3,273,943.57	\$ 247,194.88	\$ 22,962,558.89

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 65,499,971.78	\$ 1,236,877.27	\$ 1,987,780.09	\$ 304,465.12	\$ 0.00	\$ 0.00	\$ 69,029,094.26
Research	14,105,168.83	2,186,161.99	5,554,613.16	1,098,986.48	2,148.41		22,947,078.87
Public Service	3,923,884.12	312,881.10	1,056,833.32	355,219.88			5,648,818.42
Academic Support	13,819,661.28	7,053,918.11	5,045,526.82	1,864,982.81	1,985.00		27,786,074.02
Student Services	5,779,235.29	359,515.53	1,033,612.66	59,543.85			7,231,907.33
Institutional Support	14,829,820.68	998,456.17	4,660,745.44	43,588.40	1,359.92		20,533,970.61
Operations and Maintenance of Plant	8,970,272.06	4,232,479.13	4,537,169.54		3,999,804.74		21,739,725.47
Student Financial Aid	191,719.10	121,306.03	988,828.90	4,973,722.64			6,275,576.67
Auxiliary Enterprises	10,308,768.12	6,133,735.61	14,488,763.55	2,326,374.96	1,676,647.63		34,934,289.87
Depreciation						10,078,505.89	10,078,505.89
Total Operating Expenses	\$ 137,428,501.26	\$ 22,635,330.94	\$ 39,353,873.48	\$ 11,026,884.14	\$ 5,681,945.70	\$ 10,078,505.89	\$ 226,205,041.41

### NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$113,182,138.11, of which \$63,072,353.92 was covered under the Teachers' and State Employees' Retirement System. Total employer and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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employee contributions for pension benefits for the year were \$1,923,706.79 and \$3,784,341.24, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$1,923,706.79, \$1,581,550.26, and \$1,265,048.44, 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.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2008, 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 \$113,182,138.11, of which \$33,729,500.26 was covered under the Optional Retirement Program. Total employer and employee

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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contributions for pension benefits for the year were \$2,307,097.82 and \$2,023,770.02, 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 approximately 7.0% of their salary to CSRS and the University match was approximately 7.2%. For the year ended June 30, 2008, covered payroll was \$1,034,402.86 and the total employee and employer contributions were \$72,408.20 and \$74,535.56, respectively.

**B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$295,176.30 for the year ended June 30, 2008.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2008, were \$52,756.60. The voluntary contributions by employees amounted to \$438,742.00 for the year ended June 30, 2008.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,532,065.51 for the year ended June 30, 2008.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$3,968,876.02, \$3,433,784.42, and \$3,111,259.51, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$503,369.64, \$469,886.29, and \$425,751.31, 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 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 \$500 per occurrence deductible, except theft losses are subject to a \$1,000 per occurrence deductible.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$5,000,000 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 with a \$75,000 deductible and a 10% participation in each loss above the deductible.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 is self-insured for workers' compensation.

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

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

### NOTE 14 - COMMITMENTS 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 \$5,893,575.81 and on other purchases were \$9,200,414.74 at June 30, 2008.

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

### NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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GASB Statement No. 50, *Pension Disclosures*.

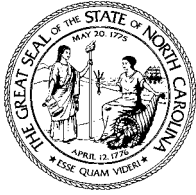
GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 48, requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and how long they will continue to do so.

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

### **NOTE 16 - SUBSEQUENT EVENTS**

Endowment investments valued at \$12,609,742.56 on June 30, 2008 were valued at \$10,384,197.24 on October 31, 2008, reflecting a market loss of \$2,225,545.32 (-17.65%).



Beth A. Wood, CPA  
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**

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

We have audited the financial statements of North Carolina Agricultural and 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, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 8, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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. Other auditors 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting.

**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 (CONTINUED)**

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Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

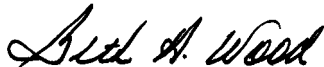
**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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We noted a certain matter that we reported to management of the University in a separate letter dated January 9, 2009.

The University's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

January 8, 2009

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## AUDIT FINDINGS AND RESPONSES

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### **Matter Related to Financial Reporting**

The following audit finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

#### ERROR IN CALCULATION OF SCHOLARSHIP DISCOUNT

The University made an error in the calculation of the scholarships to be netted from revenues rather than reported as an expense. As a result, reported tuition and fees revenue was understated by \$4,380,561, sales and services revenue was understated by \$1,162,534, and scholarships and fellowships expense was understated by \$5,543,095.

Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the stated charge for tuition and fees and the amount that is paid by the student or a third party on the students' behalf. The University overstated the discount by inappropriately including state grants that are not recognized as revenue.

The University revised its model for calculating the scholarship discount and the appropriate audit adjustment was made to the financial statements. This error did not result in an adjustment to the net assets of the University.

*Recommendation:* The University should improve review procedures to ensure that the scholarship discount calculation is accurately prepared.

*University's Response:* We concur with the auditor's interpretation of the classification and will adhere to that format in the future. The calculation format has been corrected to place state grants in the proper category.

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## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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