



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE**  
**PEMBROKE, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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Leslie W. Merritt, Jr., CPA, CFP  
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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, The University of North Carolina at Pembroke

This report presents the results of our financial statement audit of The University of North Carolina at Pembroke, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the University are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the University were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to The University of North Carolina at Pembroke. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to The University of North Carolina at Pembroke. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to The University of North Carolina at Pembroke.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the University's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

*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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
The University of North Carolina at Pembroke  
Pembroke, North Carolina

We have audited the accompanying financial statements of The University of North Carolina at Pembroke, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise The University of North Carolina at Pembroke'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 University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC, which represent 100% of the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports 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 University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Pembroke and its discretely presented component units,

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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as of June 30, 2004, 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.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2005 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 (MD&A), 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The University of North Carolina at Pembroke's basic financial statements. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 14, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Overview of The Financial Statement Information**

The University of North Carolina at Pembroke (the University) provides the following discussion and analysis as an overview of the financial position and activities of the University for the year ended June 30, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

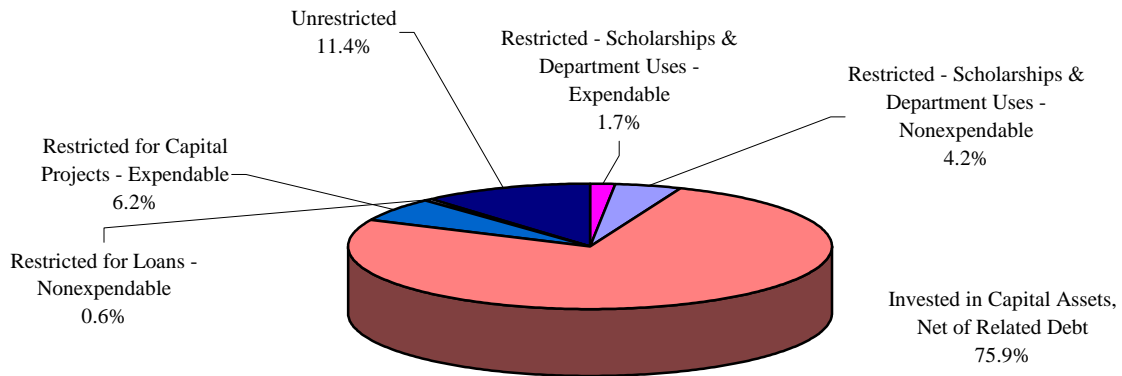
The University's financial report includes three financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows.

### **Statement of Net Assets**

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.



**ANALYSIS OF NET ASSETS**



Restricted expendable net assets consist of income from endowment funds, gifts and pledges with specific restrictions, and grants from third party agencies with expenditure restrictions. Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the principal given and certain loan funds.

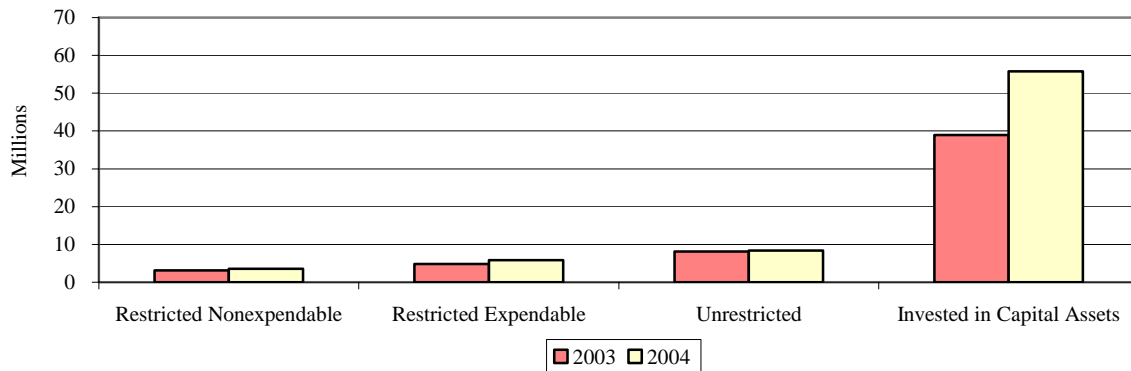
The University's endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donor. Funds functioning as endowments consist of amounts (restricted gifts or unrestricted funds) that have been designated by the University for long-term investment purposes, although amounts are not subject to donor restrictions requiring the University to preserve the principal in perpetuity. Permanent endowments increased \$70,896.00 this year, \$10,617.83 more than the \$60,278.17 increase in the prior year. Programs supported by the endowments include scholarships, professorships, and various other programs and activities. The University uses its endowments to support operations in a way that strikes a balance between generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods.

The University's Statement of Net Assets at June 30, 2004 reflects that the University continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls and conservative utilization of debt.

The University's financial position remained strong at June 30, 2004 with total assets of \$108.2 million, which represents a \$41.2 million increase from 2003.

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

**ANALYSIS OF NET ASSETS**



University liabilities totaled \$34.8 million at June 30, 2004. The University entered into a capital lease agreement for student housing in the amount of \$12.2 million. The capital lease is reflected under noncurrent liabilities. Current liabilities, which totaled \$8.0 million at June 30, 2004, consist primarily of trade accounts, accrued compensation, current portion of debt payable for capital facilities, and other miscellaneous payables.

Noncurrent liabilities consist of:

	<u>2004</u>	<u>2003</u>
Deposits Payable	\$ 146,837.00	\$ 144,532.00
Funds Held for Others	2,269,406.85	1,131,408.27
U.S. Government Grants Refundable	1,274,102.33	1,203,970.28
Funds Held in Trust for Pool Participants		282,719.67
Accrued Compensation	1,942,897.00	1,129,113.57
Capital Leases Payable	11,439,354.00	
Bonds Payable	9,720,000.00	5,025,000.00
<b>Total</b>	<u>\$ 26,792,597.18</u>	<u>\$ 8,916,743.79</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

	2004	2003	Increase/ (Decrease)	Percent Change
<b>ASSETS</b>				
Current Assets	\$ 18,393,279.98	\$ 12,258,201.63	\$ 6,135,078.35	50.05%
Noncurrent Assets:				
Capital	78,112,167.23	43,410,944.44	34,701,222.79	79.94%
Other	11,711,631.32	11,369,953.32	341,678.00	3.01%
<b>Total Assets</b>	<b>108,217,078.53</b>	<b>67,039,099.39</b>	<b>41,177,979.14</b>	<b>61.42%</b>
<b>LIABILITIES</b>				
Current Liabilities	7,974,637.20	3,137,608.84	4,837,028.36	154.16%
Noncurrent Liabilities	26,792,597.18	8,916,743.79	17,875,853.39	200.48%
<b>Total Liabilities</b>	<b>34,767,234.38</b>	<b>12,054,352.63</b>	<b>22,712,881.75</b>	<b>188.42%</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	55,742,813.23	38,893,856.07	16,848,957.16	43.32%
Restricted for:				
Scholarships	2,317,326.70	2,160,169.97	157,156.73	7.28%
Endowed Professorships	1,764,459.14	1,784,397.15	(19,938.01)	-1.12%
Departmental Uses	316,451.84	390,265.57	(73,813.73)	-18.91%
Loans	424,392.76	406,621.23	17,771.53	4.37%
Capital Projects	4,525,294.00	3,205,878.94	1,319,415.06	41.16%
Unrestricted	8,359,106.48	8,143,557.83	215,548.65	2.65%
<b>Total Net Assets</b>	<b>\$ 73,449,844.15</b>	<b>\$ 54,984,746.76</b>	<b>\$ 18,465,097.39</b>	<b>33.58%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Revenues, Expenses, And Changes In Net Assets

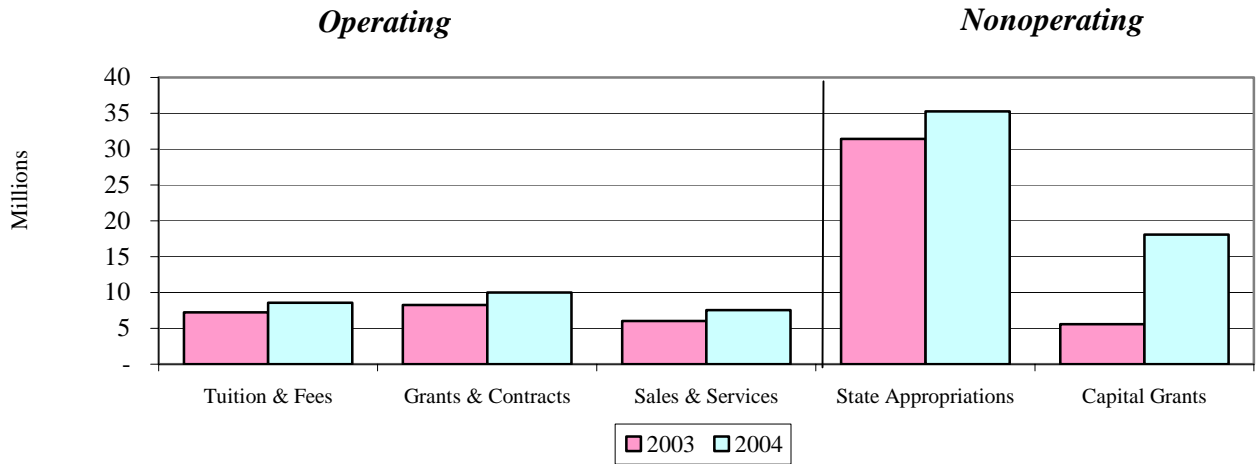
The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State appropriations and gifts as nonoperating revenues. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30 is as follows:

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

	2004	2003	Increase/ (Decrease)	Percent Change
<b>Operating Revenues:</b>				
Tuition and Fees, Net	\$ 8,584,071.43	\$ 7,244,312.38	\$ 1,339,759.05	18.49%
Grants and Contracts	9,986,215.26	8,262,570.59	1,723,644.67	20.86%
Sales and Services, Net	7,556,828.69	6,024,743.52	1,532,085.17	25.43%
Other Operating Revenues	229,006.44	225,440.72	3,565.72	1.58%
<b>Total Operating Revenues</b>	<u>26,356,121.82</u>	<u>21,757,067.21</u>	<u>4,599,054.61</u>	21.14%
<b>Operating Expenses</b>	<u>62,948,989.35</u>	<u>53,674,767.59</u>	<u>9,274,221.76</u>	17.28%
<b>Operating Loss</b>	<u>(36,592,867.53)</u>	<u>(31,917,700.38)</u>	<u>(4,675,167.15)</u>	14.65%
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	35,277,145.50	31,429,502.23	3,847,643.27	12.24%
Noncapital Grants and Gifts	646,911.44	1,205,101.82	(558,190.38)	-46.32%
Other Nonoperating Revenues	148,843.29	31,719.72	117,123.57	369.25%
<b>Total Nonoperating Revenues</b>	<u>36,072,900.23</u>	<u>32,666,323.77</u>	<u>3,406,576.46</u>	10.43%
<b>Income (Loss) Before Other Revenues, Expenses Gains, or Losses</b>	<u>(519,967.30)</u>	<u>748,623.39</u>	<u>(1,268,590.69)</u>	-169.46%
Capital Grants	18,060,786.70	5,560,000.00	12,500,786.70	224.83%
Capital Appropriations	853,381.99		853,381.99	100.00%
Additions to Permanent Endowments	70,896.00	60,278.17	10,617.83	17.61%
<b>Total Other Revenues</b>	<u>18,985,064.69</u>	<u>5,620,278.17</u>	<u>13,364,786.52</u>	237.80%
<b>Total Increase in Net Assets</b>	<u>\$ 18,465,097.39</u>	<u>\$ 6,368,901.56</u>	<u>\$ 12,096,195.83</u>	189.93%
<b>Net Assets</b>				
Beginning of year	54,984,746.76	48,615,845.20	6,368,901.56	13.10%
End of Year	<u>\$ 73,449,844.15</u>	<u>\$ 54,984,746.76</u>	<u>\$ 18,465,097.39</u>	33.58%

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

**ANALYSIS OF MAJOR REVENUE SOURCES**



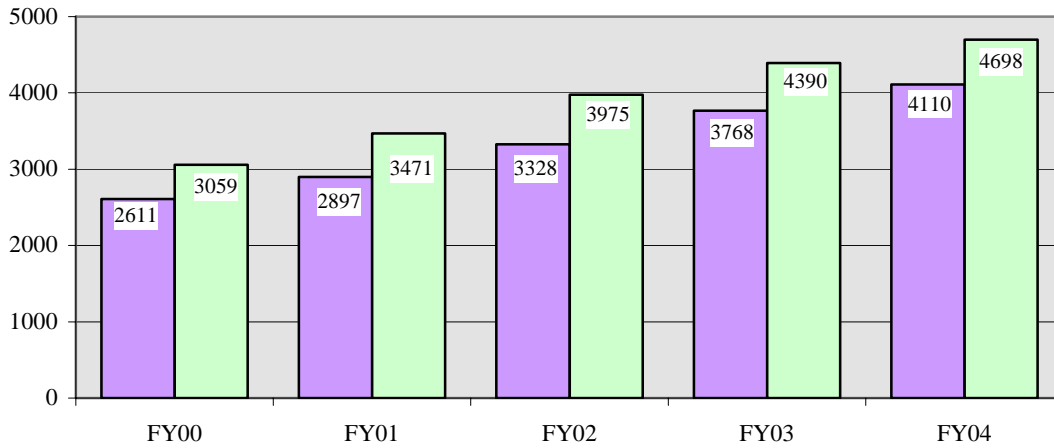
Operating revenue increased significantly as a result of enrollment increases, tuition and fee increases, and greater grant activity. The University continues to aggressively seek alternate sources of funding to supplement various academic pursuits and student tuition and fee cost. This effort coupled with prudent management practices continues to serve the University's mission to promote excellence in teaching and learning.

Total operating loss for fiscal year 2004 was \$36.6 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB 35, the University shows a significant operating loss.

On-campus fall enrollment Full Time Equivalent (FTE) continues to grow with an increase of 9.1% from 2002 (FY03) to 2003 (FY04) with a corresponding 7.0% increase in headcount (HC). In addition to the on-campus enrollment, the University had a FTE of 390.5 with a HC of 984 in its distance education program. The projected unduplicated student HC for Fall 2004 for total enrollment is 5,027. The University is projecting a 50% FTE increase and 38% HC increase from their Fall 2003 distance education enrollment and a 2% FTE increase and 3% HC increase from their Fall 2003 on-campus enrollment. The overall projection is a 6% FTE and 7% HC increase. The University is rapidly approaching its goal of 6,000 students.

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

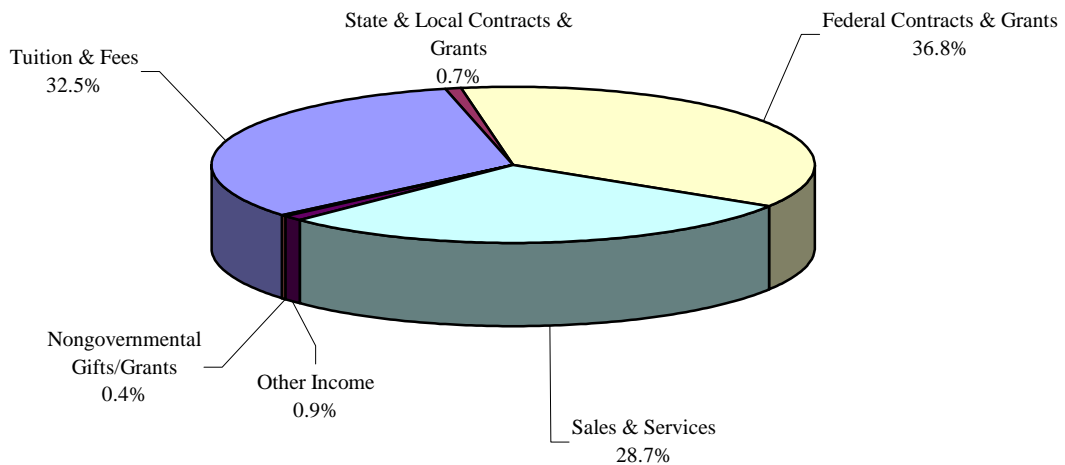
**THE UNIVERSITY OF NC AT PEMBROKE  
Total Enrollment 2000-2004**



	FY00	FY01	FY02	FY03	FY04
Fall FTE	2611	2897	3328	3768	4110
Fall Count	3059	3471	3975	4390	4698

The following graph details operating revenues. As previously noted, State appropriations of \$35,277,145.50 are considered nonoperating revenues; therefore, they are not included in the graph. State appropriations increased \$3,847,643.27 or 12.2% this year.

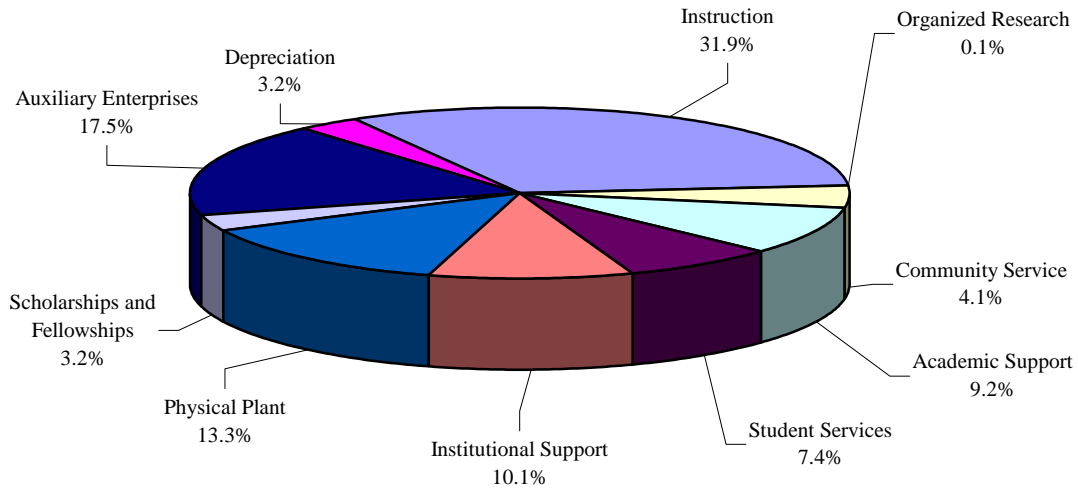
**OPERATING REVENUES**



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

The University has successfully sought a balance between increasing performance and service while reducing the overall cost of providing the service. Operating expenses totaling \$62,948,989.35 include salaries and benefits of \$35.3 million, supplies and materials of \$7.6 million, services of \$14.0 million, scholarships of \$2.0 million, utilities of \$2.0 million, and depreciation of \$2.0 million. The following two graphs detail the current use of funds by function and natural (object) classification.

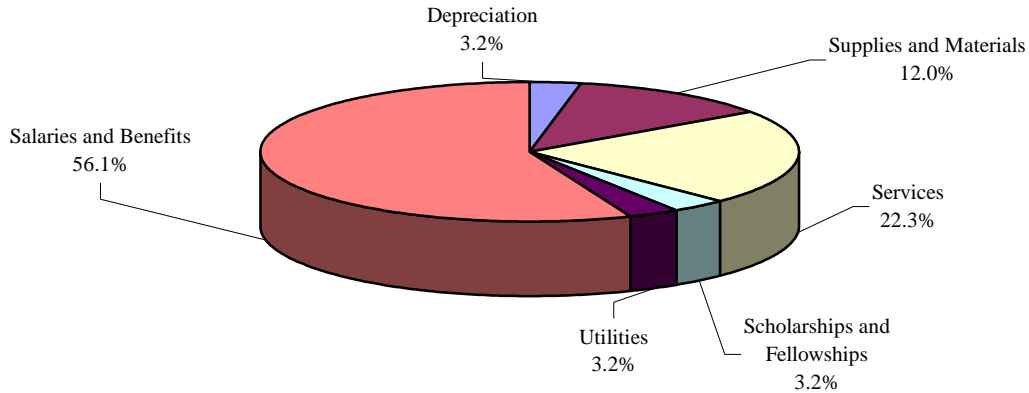
**OPERATING EXPENSES BY FUNCTION**



A comparative summary of the University's expenses by functional classification for the years ended June 30 is as follows:

	<b>2004</b>	<b>2003</b>
Instruction	\$ 20,092,576.56	\$ 17,547,773.94
Organized Research	34,291.41	47,062.57
Community Service	2,567,699.77	2,751,115.83
Academic Support	5,773,804.99	4,940,197.99
Student Services	4,672,204.66	4,356,490.90
Institutional Support	6,346,252.02	5,063,583.93
Physical Plant	8,417,322.01	6,323,618.96
Scholarships and Fellowships	1,998,963.51	1,961,668.99
Auxiliary Enterprises	11,044,705.60	8,295,384.33
Depreciation	2,001,168.82	2,387,870.15
<b>Total Operating Expenses</b>	<b>\$ 62,948,989.35</b>	<b>\$ 53,674,767.59</b>

**OPERATING EXPENSES BY OBJECT**



A comparative summary of the University's expenses for the years ended June 30 is as follows:

	<u>2004</u>	<u>2003</u>
Depreciation	\$ 2,001,168.82	\$ 2,387,870.15
Supplies and Materials	7,583,069.60	6,923,903.99
Services	14,035,451.49	10,263,035.81
Scholarships and Fellowships	2,011,956.48	1,961,668.99
Utilities	2,006,039.91	1,768,906.29
Salaries and Benefits	<u>35,311,303.05</u>	<u>30,369,382.36</u>
<b>Total Operating Expenses</b>	<u><u>\$ 62,948,989.35</u></u>	<u><u>\$ 53,674,767.59</u></u>

**Statement of Cash Flows**

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash. The statement also helps users assess the ability to generate future net cash flows, the ability to meet obligations as they come due, as well as the need for external financing.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Cash Flows

	2004	2003	Increase/ (Decrease)	Percent Change
Cash Provided By/(Used In):				
Operating Activities	\$ (30,819,663.25)	\$ (32,109,277.87)	\$ 1,289,614.62	-4.02%
Noncapital Financing Activities	35,914,855.26	32,737,503.42	3,177,351.84	9.71%
Capital and Related Financing Activities	366,957.59	64,537.25	302,420.34	468.60%
Investing Activities	(1,944,932.49)	2,849,268.50	(4,794,200.99)	-168.26%
Net Increase in Cash	3,517,217.11	3,542,031.30	(24,814.19)	-0.70%
Cash - Beginning of Year	13,450,524.21	9,908,492.91	3,542,031.30	35.75%
Cash - End of Year	<u>\$ 16,967,741.32</u>	<u>\$ 13,450,524.21</u>	<u>\$ 3,517,217.11</u>	26.15%

Major sources of funds included in operating activities include sales and services, student tuition and fees, and grants and contracts. Major uses of funds were payments to employees of \$35.3 million, payments for services of \$14.0 million, and supply expenses of \$7.6 million. The largest inflow of cash in the noncapital financing activities group is State appropriations of \$35.3 million.

### Capital and Debt Activities

The University is involved in several construction, renovation, and property acquisition projects. The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2.5 billion of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina System. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The University of North Carolina at Pembroke will receive \$56.9 million of this bond issue for construction of new facilities, renovation of existing structures, infrastructure, upgrades, and expansion. Major projects related to the bond issue include a new science building that will open in the Fall of 2004 at a cost of \$16.6 million; expansion to the Jones Physical Education Building, currently under construction, \$7.8 million; a new physical plant building that will be completed in the Summer of 2004, \$5.4 million; and a new academic classroom, \$7.0 million. The new classroom plan replaced the original plan for a new residence/dining hall.

The University borrowed \$285,000 from the UNC System 2002B Pool General Revenue Bonds to expand and improve parking facilities on campus. The increase in enrollment is placing even greater demands on our parking spaces. This debt is being repaid with revenue that is primarily from parking fees and fines paid by students and staff.

The University borrowed an additional \$605,000 from the UNC System 2002B Pool General Revenue Bonds to further enhance the track complex originally funded with the 2000 Pool. This debt is being repaid through the Student Debt Fee. The University borrowed an additional \$600,000 from the UNC System 2003B Pool to further improve the recreational, athletic, and physical education facilities.

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

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The University borrowed \$3 million from the UNC System 2003B Pool General Revenue Bonds to expand the University Center and \$1.5 million for the Auxiliary Services Building. The University Center debt is being repaid with debt fees and the Auxiliary Services Building debt is being repaid from revenues.

The bond projects are detailed further in Note 7B. These projects and others to come will enable the University to meet the needs of its students and the community at large as the University continues to evolve.

### **Economic Factors That Will Affect The Future**

Even though the economic environment has been difficult, our University is in a growth mode with record student enrollment growth of 59% over the last five years. We expect and have planned for similar enrollment growth for the next two years. With increased enrollment also come more faculty and staff, more supplies, more services, more programs, and more funding challenges.

While funded enrollment growth has generated additional funding for the University that allowed us to maintain existing programs and fund many new endeavors, we are not sure this will apply to subsequent years. With the State continuing to anticipate budget reductions, it is these funding challenges for 2006 – 2007 that have us concerned.

Therefore, the University's challenge in 2006 – 2007 continues to be how to maintain, if not improve, services and programs for more students without additional revenue and possibly with a substantial reduction in revenues and how to maintain or improve the employees' morale with yet another year of minimal salary adjustments while asking them to do more.

Thus the outlook for the University's growth is very positive. The administration will continue to monitor the University's resources to effectively react to an ever-changing environment.

***The University of North Carolina at Pembroke***  
***Statement of Net Assets***  
***June 30, 2004***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	8,592,955.67
Restricted Cash and Cash Equivalents		5,858,981.14
Receivables, Net (Note 4)		2,930,695.67
Inventories		785,355.44
Notes Receivable, Net (Note 4)		225,292.06
<b>Total Current Assets</b>		<b>18,393,279.98</b>

Noncurrent Assets:

Restricted Cash and Cash Equivalents		2,515,804.51
Receivables, Net (Note 4)		89,649.77
Restricted Due from Primary Government		2,680,066.99
Endowment Investments		3,473,101.80
Other Long-Term Investments		1,823,577.75
Notes Receivable, Net (Note 4)		1,129,430.50
Capital Assets - Nondepreciable (Note 5)		32,457,943.15
Capital Assets - Depreciable, Net (Note 5)		45,654,224.08
<b>Total Noncurrent Assets</b>		<b>89,823,798.55</b>

<b>Total Assets</b>		<b>108,217,078.53</b>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		6,478,198.68
Due to Primary Government		35,582.74
Interest Payable		112,003.78
Long-Term Liabilities - Current Portion (Note 7)		1,348,852.00
<b>Total Current Liabilities</b>		<b>7,974,637.20</b>

Noncurrent Liabilities:

Deposits Payable		146,837.00
Funds Held for Others		2,269,406.85
U. S. Government Grants Refundable		1,274,102.33
Long-Term Liabilities (Note 7)		23,102,251.00
<b>Total Noncurrent Liabilities</b>		<b>26,792,597.18</b>

<b>Total Liabilities</b>		<b>34,767,234.38</b>
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***The University of North Carolina at Pembroke***  
***Statement of Net Assets***  
***June 30, 2004***

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	55,742,813.23
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,416,186.71
Endowed Professorships	1,512,472.38
Departmental Uses	186,441.34
Loans	424,392.76
Expendable:	
Scholarships and Fellowships	901,139.99
Endowed Professorships	251,986.76
Departmental Uses	130,010.50
Capital Projects	4,525,294.00
Unrestricted	8,359,106.48
<b>Total Net Assets</b>	<b>\$ 73,449,844.15</b>

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

***The University of North Carolina at Pembroke  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2004***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 8,584,071.43
Federal Grants and Contracts	9,688,818.46
State and Local Grants and Contracts	190,940.51
Nongovernmental Grants and Contracts	106,456.29
Sales and Services, Net (Note 9)	7,556,828.69
Interest Earnings on Loans	2,463.65
Other Operating Revenues	226,542.79
<b>Total Operating Revenues</b>	<b>26,356,121.82</b>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	35,311,303.05
Supplies and Materials	7,583,069.60
Services	14,035,451.49
Scholarships and Fellowships	2,011,956.48
Utilities	2,006,039.91
Depreciation	2,001,168.82
<b>Total Operating Expenses</b>	<b>62,948,989.35</b>
<b>Operating Loss</b>	<b>(36,592,867.53)</b>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	35,277,145.50
Noncapital Grants	418,236.46
Noncapital Gifts	228,674.98
Investment Income (Net of Investment Expense of \$42,255.42)	592,967.97
Interest and Fees on Capital Asset-Related Debt	(446,162.23)
Other Nonoperating Revenues	2,037.55
<b>Net Nonoperating Revenues</b>	<b>36,072,900.23</b>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(519,967.30)</b>

Capital Appropriations	853,381.99
Capital Grants	18,060,786.70
Additions to Endowments	70,896.00
<b>Increase in Net Assets</b>	<b>18,465,097.39</b>

**NET ASSETS**

Net Assets - July 1, 2003	54,984,746.76
Net Assets - June 30, 2004	<b>\$ 73,449,844.15</b>

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

***The University of North Carolina at Pembroke***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2004***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 25,525,465.18
Payments to Employees and Fringe Benefits	(34,508,957.73)
Payments to Vendors and Suppliers	(20,409,299.67)
Payments for Scholarships and Fellowships	(2,373,856.24)
Loans Issued	(421,991.85)
Collection of Loans	439,064.90
Interest Earned on Loans	2,463.65
Student Deposits Received	96,575.00
Student Deposits Returned	(94,270.00)
Other Receipts	925,143.51
<b>Net Cash Used by Operating Activities</b>	<b>(30,819,663.25)</b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	35,277,145.50
Noncapital Grants	418,236.46
Noncapital Gifts	148,577.30
Additions to Permanent and Term Endowments	70,896.00
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>35,914,855.26</b>

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

Proceeds from Capital Debt	5,270,000.00
State Capital Appropriations	853,381.99
Capital Grants	19,017,185.81
Acquisition and Construction of Capital Assets	(23,884,622.94)
Principal Paid on Capital Debt and Leases	(442,825.04)
Interest and Fees Paid on Capital Debt and Leases	(446,162.23)
<b>Net Cash Provided by Capital Financing and Related Financing Activities</b>	<b>366,957.59</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	596,381.14
Purchase of Investments and Related Fees	(2,541,313.63)
<b>Net Cash Used by Investing Activities</b>	<b>(1,944,932.49)</b>

Net Increase in Cash and Cash Equivalents	3,517,217.11
Cash and Cash Equivalents - July 1, 2003	13,450,524.21
<b>Cash and Cash Equivalents - June 30, 2004</b>	<b>\$ 16,967,741.32</b>

***The University of North Carolina at Pembroke***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2004***

***Exhibit A-3***

***Page 2***

**RECONCILIATION OF NET OPERATING EXPENSES  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (36,592,867.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,001,168.82
Allowances and Write-Offs	(31,021.88)
Nonoperating Other Income	2,037.55
Changes in Assets and Liabilities:	
Receivables (Net)	(1,189,415.66)
Inventories	(93,898.63)
Accounts Payable and Accrued Liabilities	4,237,996.15
Due to Primary Government	35,582.74
Compensated Absences	792,054.23
Deposits Payable	2,305.00
Note Principle Repayments	438,387.81
Notes Issued	(421,991.85)
<b>Net Cash Used by Operating Activities</b>	<b>\$ (30,819,663.25)</b>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 8,592,955.67
Restricted Cash and Cash Equivalents	5,858,981.14
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,515,804.51
<b>Total Cash and Cash Equivalents - June 30, 2004</b>	<b>\$ 16,967,741.32</b>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	\$ 12,817,768.67
Assets Acquired through a Gift	80,097.68

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

<b><i>The University of North Carolina at Pembroke Foundations</i></b>			
<b><i>Statement of Financial Position</i></b>			
<b><i>June 30, 2004</i></b>			<b><i>Exhibit B-1</i></b>
	<b>The University of North Carolina at Pembroke Foundation, Inc.</b>	<b>The UNCP University Foundation, LLC</b>	<b>The UNCP Student Housing Foundation, LLC</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 425,802	\$ 153,824	\$ 298,681
Investments	1,040,944		
Cash Surrender Value of Life Insurance	33,884		
Security Deposits		104,194	
Assets Held by Trustees		1,349,416	2,478,370
Receivables, Net	79,187	67,199	2,495
Prepaid Expenses		32,688	
Deferred Charges		540,101	
Property and Equipment, Net		8,443,429	7,857,305
<b>Total Assets</b>	<b>1,579,817</b>	<b>10,690,851</b>	<b>10,636,851</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	3,803	43,139	799,085
Deferred Revenue		42,985	
Interest Payable		10,524	152,994
Deposits Payable		104,194	
Funds Held for Others	1,258		
Interest Rate Swap Fair Value Liability		903,500	
Notes Payable		11,325,000	
Bonds Payable			9,540,000
<b>Total Liabilities</b>	<b>5,061</b>	<b>12,429,342</b>	<b>10,492,079</b>
<b>NET ASSETS</b>			
Unrestricted	139,187	(1,738,491)	144,772
Temporarily Restricted	107,400		
Permanently Restricted	1,328,169		
<b>Total Net Assets</b>	<b>\$ 1,574,756</b>	<b>\$ (1,738,491)</b>	<b>\$ 144,772</b>
See Note 1 in the Notes to the Financial Statements			



<b><i>The University of North Carolina at Pembroke Foundations</i></b>			
<b><i>Statement of Activities</i></b>			
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>			
			<b><i>Exhibit B-2</i></b>
	<b>The University of</b>		
	<b>North Carolina at</b>	<b>The UNCP</b>	<b>The UNCP</b>
	<b>Pembroke</b>	<b>University</b>	<b>Student Housing</b>
	<b>Foundation, Inc.</b>	<b>Foundation, LLC</b>	<b>Foundation, LLC</b>
<b>REVENUES</b>			
Gifts, Donations, and Contributions	\$ 361,571	\$ 0	\$ 0
Investment Income	88,452	13,558	13,515
Net Realized and Unrealized Gains on Investments	16,079		
Rental Income		1,399,502	453,600
Miscellaneous Income		29,823	
<b>Total Revenues</b>	<b>466,102</b>	<b>1,442,883</b>	<b>467,115</b>
<b>EXPENSES</b>			
Operating Expenses:			
Payments to University	62,881		
Contributions to Other Agencies	1,500		
Development	31,381		
Management and General	20,429		
Fixed Charges			200
Administrative		39,278	
Leasing		1,730	
Advertising and Promotional		4,699	
Property Management Fees		71,676	
Professional Fees		13,607	
Payroll and Related Expenses		98,678	
Maintenance and Repairs		83,362	
Utilities		296,559	
Taxes and Insurance		40,781	
Depreciation		271,382	132,439
Amortization		19,881	
Interest on Debt		494,336	187,224
Indebtedness Fees			2,480
Bond Fees		218,134	
Change in Fair Value of Interest Rate Swap		(1,251,517)	
<b>Total Expenses</b>	<b>116,191</b>	<b>402,586</b>	<b>322,343</b>
<b>Change in Net Assets</b>	<b>349,911</b>	<b>1,040,297</b>	<b>144,772</b>
<b>NET ASSETS</b>			
Net Assets - Beginning of Year	1,224,845	(2,778,788)	
<b>Net Assets - End of Year</b>	<b>\$ 1,574,756</b>	<b>\$ (1,738,491)</b>	<b>\$ 144,772</b>
See Note 1 in the Notes to the Financial Statements			

**THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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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. The University of North Carolina at Pembroke is a constituent institution of the sixteen-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 units. 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 units are discretely presented in the University's financial statements. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

**Discretely Presented Component Units** – The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC (the "Foundations") are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The University of North Carolina at Pembroke Foundation, Inc. (the "Foundation") 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 public directors, 5 elected non-public directors, and 2 ex-officio directors. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University.

The UNCP University Foundation, LLC and the UNCP Student Housing Foundation, LLC are legally separate, tax-exempt component units of the University and provide housing for University students. The UNCP University Foundation, LLC (the “Courtyard”) was organized as a limited liability company on October 16, 2000, under the laws of the State of North Carolina for the purpose of acquiring, developing, constructing and operating a 336-bed student housing rental project. The property location is in Pembroke, North Carolina and is currently known as the University Courtyard Apartments. The activities of the Courtyard are governed by an operating agreement. The Foundation is the sole member of the Courtyard. The UNCP Student Housing Foundation, LLC (the “Village”) was organized as a limited liability company on December 5, 2003, under the laws of the State of North Carolina for the purpose of acquiring, developing, constructing, and operating a student housing project. The property location is on the campus of the University of North Carolina at Pembroke (UNCP) and is currently known as the University Village Apartments. The major activities of the Village are governed by an operating agreement. The Foundation is the sole member of the Village. The Foundations are reported in separate financial statements because of the difference in their reporting model, as described below.

The Foundations are private not-for-profit organizations that report their financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations’ financial information in the University’s financial reporting entity for these differences.

During the year ended June 30, 2004, The University of North Carolina at Pembroke Foundation, Inc. distributed \$62,881.35 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundations can be obtained from the University’s Office of Business Affairs.

- 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).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

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

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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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** - This classification includes long-term fixed income investments, equity investments, money market funds, real estate investment trusts, and other asset holdings by the University. Except for money market funds and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Money market funds and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of postage, fuel oil held for consumption, expendable supplies, and merchandise for resale, are valued at the lower of cost or market using the first-in, first-out method. Textbooks are valued at the lower of cost or market value using the weighted average 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 expected 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 15 to 25 years for general infrastructure, 25 to 40 years for buildings, and 3 to 15 years for equipment.

The Native American Resource Museum and portrait 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** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

The University's bond premiums/discounts are considered immaterial and are expensed with the issuance costs.

- 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 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002 and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### *Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, the print shop, motor pool, and auxiliaries with interdepartmental activities. 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 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 General Statute 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.

Deposits include cash and cash equivalents totaling \$16,967,741.32. At year-end, cash on hand was \$841,148.49. The University's portion of the State Treasurer's Investment Pool was \$16,076,192.94. It is the State



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$50,399.89 and the bank balance was \$63,387.23. The entire bank balance was covered by federal depository insurance.

*North Carolina General Statutes* 147-69.1(c), applicable to the State's General Fund, and 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, General Statute 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. General Statute 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.

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 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 previously discussed.

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.

General Statute 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of the University's component units, The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC, are subject to and restricted by General Statute 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 an investment pool to manage investments and distribute investment income. The University utilizes the following investment pool:

**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 unit value method. Under this method, each participating fund's investment balance is determined on its prorata share of the principal value and undistributed earnings. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

**Credit Risk Categories** - The University's investments (pooled and non-pooled) are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the University's investments at June 30, 2004 is presented below:

### *Long-Term Investment Pool*

	Fair Value			
	Risk Category			Total
	1	2	3	
<b>Categorized Investments:</b>				
U.S. Government Securities	\$ 0.00	\$ 24,609.00	\$ 0.00	\$ 24,609.00
Corporate Bonds		1,716,387.94		1,716,387.94
Corporate Stocks		2,513,423.38		2,513,423.38
<b>Total Categorized Investments</b>	<b>\$ 0.00</b>	<b>\$ 4,254,420.32</b>	<b>\$ 0.00</b>	<b>4,254,420.32</b>
<b>Investments Not Categorized:</b>				
Money Market Funds				413,627.02
Real Estate Investment Trusts				143,550.41
<b>Total Investments Not Categorized</b>				<b>557,177.43</b>
<b>Total Long-Term Investments</b>				<b>\$ 4,811,597.75</b>

### *Non-Pooled Investments*

	Fair Value
<b>Investments Not Categorized:</b>	
Investments Held by Broker-Dealers:	
U.S. Government Securities	\$ 414,885.16
Other Investments	70,196.64
<b>Total Non-Pooled Investments</b>	<b>\$ 485,081.80</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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***Total Investments***

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Total Categorized Investments</b>	\$ 0.00	\$ 4,254,420.32	\$ 0.00	\$ 4,254,420.32
<b>Total Investments Not Categorized</b>				1,042,259.23
<b>Total Investments</b>				\$ 5,296,679.55

**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 5.5% of the "average market value" of the endowment funds. The "average market value" is defined as an average of the market values on December 31 of the previous three years. The actual spending may be less than the 5.5% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2004, net appreciation of \$337,551.47 was available to be spent, of which \$335,783.84 was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 975,679.93	\$ 94,260.06	\$ 881,419.87
Accounts	1,046,137.84		1,046,137.84
Intergovernmental	954,348.05		954,348.05
Pledges	4,403.43	1,238.51	3,164.92
Investment Earnings	36,038.10		36,038.10
Interest on Loans	9,586.89		9,586.89
<b>Total Current Receivables</b>	<b><u>\$ 3,026,194.24</u></b>	<b><u>\$ 95,498.57</u></b>	<b><u>\$ 2,930,695.67</u></b>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 116,366.66</u>	<u>\$ 26,716.89</u>	<u>\$ 89,649.77</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 109,880.90	\$ 26,634.15	\$ 83,246.75
Institutional Student Loan Programs	<u>142,045.31</u>		<u>142,045.31</u>
<b>Total Notes Receivable - Current</b>	<b><u>\$ 251,926.21</u></b>	<b><u>\$ 26,634.15</u></b>	<b><u>\$ 225,292.06</u></b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 1,348,989.19</u>	<u>\$ 219,558.69</u>	<u>\$ 1,129,430.50</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, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 1,702,577.08	\$ 0.00	\$ 23,177.48	\$ 0.00	\$ 1,725,754.56
Art, Literature, and Artifacts	168,608.74				168,608.74
Construction in Progress	7,821,639.32	(547,429.28)	23,289,369.81		30,563,579.85
<b>Total Capital Assets, Nondepreciable</b>	<u>9,692,825.14</u>	<u>(547,429.28)</u>	<u>23,312,547.29</u>		<u>32,457,943.15</u>
Capital Assets, Depreciable:					
Buildings	41,774,626.48	180,863.37	12,437,498.03		54,392,987.88
Machinery and Equipment	6,818,039.23		683,021.44	40,851.48	7,460,209.19
General Infrastructure	5,016,818.90	366,565.91	269,324.85		5,652,709.66
<b>Total Capital Assets, Depreciable</b>	<u>53,609,484.61</u>	<u>547,429.28</u>	<u>13,389,844.32</u>	<u>40,851.48</u>	<u>67,505,906.73</u>
Less Accumulated Depreciation for:					
Buildings	13,870,744.20		1,100,370.43		14,971,114.63
Machinery and Equipment	5,080,104.74		611,332.31	40,851.48	5,650,585.57
General Infrastructure	940,516.37		289,466.08		1,229,982.45
<b>Total Accumulated Depreciation</b>	<u>19,891,365.31</u>		<u>2,001,168.82</u>	<u>40,851.48</u>	<u>21,851,682.65</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>33,718,119.30</u>	<u>547,429.28</u>	<u>11,388,675.50</u>		<u>45,654,224.08</u>
<b>Capital Assets, Net</b>	<u>\$ 43,410,944.44</u>	<u>\$ 0.00</u>	<u>\$ 34,701,222.79</u>	<u>\$ 0.00</u>	<u>\$ 78,112,167.23</u>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 4,979,364.64
Accrued Payroll	698,536.17
Contract Retainage	800,297.87
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 6,478,198.68</u>

## 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, 2004 is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Bonds Payable	\$ 5,305,000.00	\$ 5,270,000.00	\$ 425,000.00	\$ 10,150,000.00	\$ 430,000.00
Capital Leases Payable	17,825.04	12,219,354.00	17,825.04	12,219,354.00	780,000.00
Compensated Absences	1,289,694.77	2,296,875.00	1,504,820.77	2,081,749.00	138,852.00
<b>Total Long-Term Liabilities</b>	<b>\$ 6,612,519.81</b>	<b>\$ 19,786,229.00</b>	<b>\$ 1,947,645.81</b>	<b>\$ 24,451,103.00</b>	<b>\$ 1,348,852.00</b>

Additional information regarding the capital lease obligation is included in Note 8.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2004	Principal Outstanding 6/30/2004
The University of North Carolina System Pool Revenue Bonds						
Housing System	A	4.0%-5.25%	10/1/2018	\$ 3,130,000.00	\$ 460,000.00	\$ 2,670,000.00
Recreational Facilities	B	5.0%-5.75%	6/30/2021	1,025,000.00	95,000.00	930,000.00
Dining System	B	5.0%-5.75%	6/30/2021	755,000.00	110,000.00	645,000.00
Recreational Center Improvements	C	3.5%-5.0%	4/1/2012	605,000.00	75,000.00	530,000.00
Surface Parking Lot	C	3.5%-5.0%	4/1/2012	285,000.00	35,000.00	250,000.00
University Center Renovation & Expansion Auxiliary Services Complex & Student Recreational Facility	D	2.0%-4.75%	4/1/2028	5,270,000.00	145,000.00	5,125,000.00
<b>Total Bonds Payable</b>				<b>\$ 11,070,000.00</b>	<b>\$ 920,000.00</b>	<b>\$ 10,150,000.00</b>

(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 2002B

(D) The University of North Carolina System Pool Revenue Bonds, Series 2003B

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2004 are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 430,000.00	\$ 443,215.02
2006	445,000.00	427,302.50
2007	465,000.00	411,202.52
2008	475,000.00	394,677.50
2009	495,000.00	376,752.52
2010-2014	2,580,000.00	1,544,388.12
2015-2019	2,590,000.00	948,939.98
2020-2024	1,420,000.00	489,191.25
2025-2029	1,250,000.00	152,000.02
Total Requirements	\$ 10,150,000.00	\$ 5,187,669.43

Interest on the revenue bonds is calculated at 2% - 5.75% at June 30, 2004.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 8 - LEASE OBLIGATIONS**

**A. Capital Lease Obligation** - The capital lease obligation relating to University student housing is recorded at the present value of the minimum lease payments. Future minimum lease payments under the capital lease obligation consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 780,000.00
2006	780,000.00
2007	780,000.00
2008	780,000.00
2009	780,000.00
2010-2014	3,900,000.00
2015-2019	3,900,000.00
2020-2024	3,900,000.00
2025-2029	3,900,000.00
2030-2034	3,900,000.00
Total Minimum Lease Payments	23,400,000.00
Amount Representing Interest (4.84% Rate of Interest)	<u>11,180,646.00</u>
Present Value of Future Lease Payments	<u><u>\$ 12,219,354.00</u></u>

Buildings acquired under the capital lease amounted to \$12,219,354.00 at June 30, 2004.

**B. Operating Lease Obligations** – The University entered into operating leases for modular offices and classrooms. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	<u><u>\$ 48,039.55</u></u>

Rental expense for all operating leases during the year was \$401,115.31.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Revenues Pledged as Security for Debt
<b>Operating Revenues:</b>						
<b>Student Tuition and Fees</b>	\$ 12,682,921.03	\$ 0.00	\$ 4,009,663.92	\$ 89,185.68	\$ 8,584,071.43	\$ 190,365.37 (A)
<b>Sales and Services:</b>						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 3,324,829.25	\$ 275,540.41	\$ 1,087,342.59	\$ 0.00	\$ 1,961,946.25	\$ 1,961,946.25 (B)
Dining	2,121,637.44	222,091.83	650,285.48		1,249,260.13	1,249,260.13 (C)
Student Union Services	65,826.99	6,890.73			58,936.26	
Health, Physical Education, and Recreation Services	696,664.65	72,926.47			623,738.18	
Bookstore	2,941,000.89	307,862.34	562,899.02		2,070,239.53	2,070,239.53 (E)
Parking	233,798.50	24,473.90		5,074.38	204,250.22	204,250.22 (D)
Athletic	35,429.55	3,708.75			31,720.80	
Other	1,415,188.64	220,642.03			1,194,546.61	
Sales and Services of Educational and Related Activities	262,301.37	100,110.66			162,190.71	
<b>Total Sales and Services</b>	<u>\$ 11,096,677.28</u>	<u>\$ 1,234,247.12</u>	<u>\$ 2,300,527.09</u>	<u>\$ 5,074.38</u>	<u>\$ 7,556,828.69</u>	<u>\$ 5,485,696.13</u>

Revenue Bonds Secured by Pledged Revenues:

(A) Recreational Facilities and University Center Expansion

(B) Housing System

(C) Dining System

(D) Surface Parking

(E) Bookstore

### 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	\$ 17,911,110.28	\$ 1,232,097.35	\$ 949,368.93	\$ 0.00	\$ 0.00	\$ 0.00	\$ 20,092,576.56
Research	27,260.42	2,575.99	4,455.00				34,291.41
Public Service	1,735,623.08	252,006.37	571,840.96	8,229.36			2,567,699.77
Academic Support	4,009,705.92	1,233,252.85	523,962.77	4,763.61	2,119.84		5,773,804.99
Student Services	2,212,995.10	219,591.64	2,239,617.92				4,672,204.66
Institutional Support	4,356,917.39	535,109.19	1,453,841.31		384.13		6,346,252.02
Operations and Maintenance of Plant	3,184,886.65	832,023.27	3,102,651.75		1,297,760.34		8,417,322.01
Student Financial Aid				1,998,963.51			1,998,963.51
Auxiliary Enterprises	1,872,804.21	3,276,412.94	5,189,712.85		705,775.60		11,044,705.60
Depreciation						2,001,168.82	2,001,168.82
<b>Total Operating Expenses</b>	<u>\$ 35,311,303.05</u>	<u>\$ 7,583,069.60</u>	<u>\$ 14,035,451.49</u>	<u>\$ 2,011,956.48</u>	<u>\$ 2,006,039.91</u>	<u>\$ 2,001,168.82</u>	<u>\$ 62,948,989.35</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the University had a total payroll of \$28,477,098.72, of which \$14,255,549.34 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$855,332.96 and \$31,362.21, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$31,362.21, \$0.00, and \$244,603.33, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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, 2004, 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 year ended June 30, 2004, the University had a total payroll of \$28,477,098.72, of which \$11,182,778.39 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$670,966.70 and \$764,902.04, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$151,405.10 for the year ended June 30, 2004.

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, 2004 were \$19,218.78. The voluntary contributions by employees amounted to \$92,485.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$672,708.94 for the year ended June 30, 2004.

### **NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2004, the University's total contribution to the Plan was

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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\$814,026.49. 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*.

- B. Long-Term Disability** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The University was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$500,000 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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theft losses carry a \$1,000 per occurrence deductible. The University also purchased through the Fund all risk coverage for auxiliary buildings and contents.

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 occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State 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 \$50,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

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

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation for employees paid by State appropriations and purchased coverage for all other employees with a private insurance company.

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. There were no employer contributions required for the current fiscal year.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$8,204,499.81 at June 30, 2004.

**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.

**C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization of \$32,378,026.60 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University.

**The University of North Carolina at Pembroke**  
**Schedule of General Obligation Bond Project Authorizations,**  
**Budgets, and Expenditures**  
**For Project-to-Date as of June 30, 2004**

**Schedule 1**

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<b>Capital Improvement Projects</b>									
<i>Projects Started</i>									
301-New Science Building	Nov 2000	Nov 2000	\$ 16,568,570.00	\$ 0.00	\$ 16,568,570.00	\$ 10,138,728.70	61.19%	Jul 2004	Oct 2004
303-Locklear Hall Classroom Building Renovation	Dec 2002	Dec 2002	1,900,000.00		1,900,000.00	32,899.00	1.73%	Jan 2006	Jan 2006
306-Moore Classroom Hall Renovation	Dec 2002	Dec 2002	2,507,715.00		2,507,715.00	138,613.50	5.53%	Apr 2006	Apr 2006
307-Residence/Dining Hall Replacement-Jacobs/Wellons	Oct 2001	Oct 2001	296,136.75		296,136.75	296,136.75	100.00%	Aug 2004	Jun 2003
309-Jones Physical Education Building	Nov 2000	Nov 2000	7,831,515.00	600,000.00	8,431,515.00	3,688,667.72	43.51%	Jun 2004	Feb 2005
310-New Physical Plant Building	Oct 2001	Oct 2001	5,373,200.00		5,373,200.00	4,933,092.16	91.81%	May 2004	Aug 2004
311-Renovate Old Physical Plant-Renovate Auxiliary Services	Aug 2002	Aug 2002	2,561,200.00	1,500,000.00	4,061,200.00	296,070.39	7.29%	Aug 2005	Mar 2006
312-Campuswide Infrastructure Improvements	Oct 2002	Oct 2002	1,896,770.00		1,896,770.00	41,221.20	2.17%	Mar 2006	Mar 2006
313-Campus Water Distribution Upgrade	Oct 2002	Oct 2002	498,750.00		498,750.00	87,307.41	17.51%	Apr 2005	May 2005
314 Primary Electrical Distribution Upgrades/Bookstore	Oct 2002	Oct 2002	897,750.00		897,750.00	59,709.00	6.65%	Jan 2004	Mar 2006
315-Technology Infrastructure Expansion	Apr 2001	Apr 2001	2,658,575.00		2,658,575.00	1,247,364.60	46.92%	Oct 2006	Dec 2005
316-Economic Forum Building	Nov 2001	Nov 2001	232,370.00	1,645,467.00	1,877,837.00	1,645,467.00	100.00%	Jun 2004	Jun 2004
350-Reserve-Project Management	Oct 2001	Oct 2001	2,843,680.00		2,843,680.00	875,695.98	30.79%	Oct 2007	Jan 2007
<i>Projects Not Started - To Be Funded in Future Years</i>									
304-D. F. Lowry Classroom Building Renovation & Addition	Mar 2003	Jul 2004	1,852,975.00		1,852,975.00				
305-Business Administration Building Renovation	Mar 2003	Jul 2004	1,006,810.00		1,006,810.00				
308-West Residence Hall Renovation	Mar 2004	Jul 2004	928,435.00		928,435.00				
317-Classroom Building	Jul 2004	Jul 2004	7,019,148.25		7,019,148.25				
<b>Total All Projects</b>			<b>\$ 56,873,600.00</b>	<b>\$ 3,745,467.00</b>	<b>\$ 60,619,067.00</b>	<b>\$ 23,460,973.41</b>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Leslie W. Merritt, Jr., CPA, CFP  
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  
The University of North Carolina at Pembroke  
Pembroke, North Carolina

We have audited the financial statements of The University of North Carolina at Pembroke, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 14, 2005. We did not audit the financial statements of The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC, which represent 100% of the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component units.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the 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 (CONCLUDED)**

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would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees and Board of Governors, management and staff of the University, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 14, 2005

## DISTRIBUTION OF AUDIT REPORT

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
Ms. Molly Corbett Broad	President, The University of North Carolina
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Mr. Carl Meares, Jr.	Chairman, Board of Trustees The University of North Carolina at Pembroke

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### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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March 2, 2005

## ORDERING INFORMATION

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