

STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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THE UNIVERSITY OF NORTH CAROLINA

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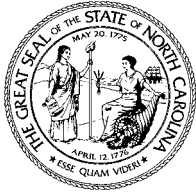
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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Pembroke

We have completed a financial statement audit of The University of North Carolina at Pembroke for the year ended June 30, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

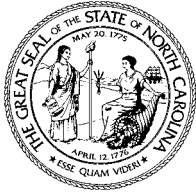
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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 multi-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, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of North Carolina at Pembroke Foundation Inc., The UNCP Foundation LLC, or The UNCP Student Housing Foundation LLC, which comprise 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 opinions, insofar as they relate to the amounts included for those entities, are 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 Foundation LLC, or 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 the 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 as of June 30, 2010, 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 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2011 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA
State Auditor

April 27, 2011

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis is provided by The University of North Carolina at Pembroke's (the University) financial management as an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes between fiscal years 2010 and 2009, as well as pertinent facts, decisions, and conditions.

Using the Financial Statements

The financial statements of the University provide information regarding its financial position and results of operations as of the report date. The Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows comprise the basic financial statements required by the Governmental Accounting Standards Board (GASB). The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balances. Notes to the Financial Statements are an integral part of the information presented and should be read in conjunction with the financial statements.

The Statement of Net Assets provides information relative to the University's assets, liabilities, and net assets as of the last day of the fiscal year. 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. Assets and liabilities on this statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year and are anticipated to be used to pay for current liabilities. Current liabilities are those payable in the next fiscal year. Net assets on this statement are categorized as invested in capital assets (net of related debt), restricted or unrestricted. Restricted net assets are categorized as expendable or nonexpendable for the purpose noted. Overall, the Statement of Net Assets provides information relative to the financial strength of the University and its ability to meet current and long-term obligations.

The Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the results of the University's operations, nonoperating activities, and other activities affecting net assets, which occurred during the fiscal year. Nonoperating activities include funding from the State in the form of appropriations, noncapital gifts and grants, as well as interest expense on financing activities and investment income (net of investment expenses). Overall, the Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the University's management of its operations and its ability to maintain its financial strength.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Assets.

The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, long-term liabilities, accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the University's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with the amounts reported and are considered an integral part of the financial statements. The Notes to the Financial Statements should be read in conjunction with the financial statements.

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used in the private-sector. The University's supporting organizations, the University of North Carolina at Pembroke Foundation Inc, The UNCP University Foundation LLC, and The UNCP Student Housing Foundation LLC (Foundations) are legally separate not-for-profit organizations and are reported as discretely presented component units based on the nature and significance of their relationship to the University. Therefore, the results of their operations are not blended with the University's financial statements, but are discretely presented, and are not included in this Management's Discussion and Analysis. The UNCP Student Housing Foundation LLC currently leases two apartment buildings to the University for use as student housing.

Comparison of Two-Year Data for 2010 TO 2009

Comparative financial data of 2010 to 2009 is summarized in Table 1. Discussion of comparative data is included in the following section.

Analysis of Overall Financial Position - Statement of Net Assets

Total assets increased by \$2,952,639 or 1.95% from the prior year. Current assets increased by \$2,645,936 or 13.38%. Capital assets increased by \$356,356 or .30% from the previous year.

The \$2,645,936 increase in current assets was the result of a \$2,477,432 increase in unrestricted cash which was a result of increased revenues from auxiliary sales and services operations. Cash carry forward funds approved by the Office of State Budget and Management increased by \$1,459,983 or 144.64% over the previous year. The Management Flexibility portion of the carry forward was not approved in fiscal year 2009, but was restored in the current year at \$1,411,547 and contributed to higher current assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total liabilities decreased by \$2,246,509 or 5.12% from the previous year. Current liabilities decreased by \$1,082,771 or 20.73% while noncurrent liabilities decreased by \$1,163,738 or 3.01%. The decline in liabilities reflects efficiencies gained from implementing the new Banner Payroll system. June payroll accruals decreased because expenses are recorded and paid in the month incurred. The University continues to focus on processing vendor payments timely to ensure good vendor relations and to ensure the University may take advantage of discounts for early payment. Noncurrent liabilities decreased reflecting a continuing reduction of outstanding debt related to capital projects.

Restricted expendable net assets consist of income from endowment funds, gifts, pledges with specific restrictions, and grants from third party agencies with expenditure restrictions. Restricted nonexpendable net assets consist of endowment gifts with specific restrictions and whose principal is maintained in perpetuity. Unrestricted net assets consist primarily of University and student auxiliaries, scholarship funds from unrestricted sources, and overhead receipts balances. Expendable restricted net assets decreased \$1,770,085 or 32.63%, due to the increased spending on capital projects in fiscal year 2010. Unrestricted net assets increased \$4,583,217 or 52.92% primarily due to proprietary fund increases of \$2,519,776 for bookstore, dining, housing and athletics. These increases occurred as a result of enrollment growth and increases in fees and sales. There was also a significant increase in tuition as a result of enrollment growth and rate increases which resulted in increases in unrestricted net assets.

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 are restricted gifts and/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. Total additions to endowments were \$660,489 which is a 44.44% decrease from fiscal year 2009. The significant decrease is due to the fact that the University received a \$750,000 endowment for nursing in the prior year. Programs supported by endowments include scholarships, professorships, and various other programs and activities.

Analysis of Results of Operations – Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets shows that operating revenues increased by \$1,674,215 or 5.19% over the previous year. Student Tuition and Fees, Net, increased by \$1,459,976 or 9.06%. Increased Student Tuition and Fees reflects a continuing increase in enrollment and a modest increase in charges for tuition and fees.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE OPERATING REVENUES BY CLASS

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u> (as restated)
Student Tuition and Fees (Net)	\$ 17,571,199	\$ 16,111,223
Federal Grants and Contracts	2,556,206	2,820,872
State and Local Grants and Contracts	476,452	405,523
Nongovernmental Grants and Contracts	166,606	96,368
Sales and Services (Net)	12,666,600	12,445,120
Other Operating Revenues	483,946	367,688
Total Operating Revenues	<u>\$ 33,921,009</u>	<u>\$ 32,246,794</u>

Total operating expenses increased by \$4,262,618 or 4.00% from the previous year. Supplies and material expenses increased by \$2,705,712 or 34.29% reflecting increased purchases of computers, software and related equipment to upgrade systems and replace outdated computers and equipment. Scholarships and fellowships increased by \$3,577,504 or 38.92% representing increased funding from Pell grants and University funds. The emphasis on additional funding is a University priority to ensure that financial assistance is available to all qualified applicants. The overall increase in operating expenses is considered moderate and is attributed to the continuing impact of the economy on University operations. Services expenses decreased by \$3,296,619 or 16.06% reflecting decreased expenditures for travel, printing, postage, and advertising.

Operating expenses totaling \$110,797,305 include salaries and benefits of \$60,612,707, supplies and materials of \$10,596,886, services of \$17,236,039, scholarships and fellowships of \$12,768,812, utilities of \$3,928,914, and depreciation of \$5,653,947.

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE OPERATING EXPENSE BY FUNCTIONAL CLASSIFICATION

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u> (as restated)
Instruction	\$ 34,876,141	\$ 33,755,311
Research	409,011	222,805
Public Service	2,113,111	2,412,456
Academic Support	10,710,427	10,399,541
Student Services	5,352,895	6,800,273
Institutional Support	9,458,461	9,054,988
Operations & Maintenance of Plant	9,527,562	12,496,858
Student Financial Aid	12,926,501	9,308,576
Auxiliary Enterprises	19,769,249	16,541,233
Depreciation	5,653,947	5,542,646
Total Operating Expenses	<u>\$ 110,797,305</u>	<u>\$ 106,534,687</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE OPERATING EXPENSE BY CLASS

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u> (as restated)
Salaries and Benefits	\$ 60,612,707	\$ 59,377,050
Supplies and Materials	10,596,886	7,891,174
Services	17,236,039	20,532,658
Scholarships and Fellowships	12,768,812	9,191,308
Utilities	3,928,914	3,999,851
Depreciation	<u>5,653,947</u>	<u>5,542,646</u>
Total Operating Expenses	<u>\$ 110,797,305</u>	<u>\$ 106,534,687</u>

Certain revenues and expenses are not reflected as operating in the financial statements. These revenues and expenses include State appropriations, state aid from federal recovery funds, noncapital grants, interest and fees on debt and other miscellaneous revenues and expenses. For proper comparison, the 2009 column includes a restatement to include various State financial aid grants. These grants were not previously recognized as revenue or expense. The restatement records \$7,454,148 in revenue to noncapital grants and gifts and the same expense to scholarships and fellowships. The related tuition discount was recorded to student tuition and fees revenue, sales and service revenue, and scholarships and fellowships expense.

The State appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of the State Controller. Appropriations from the State for the University were \$53,580,406 for operations and \$3,330,829 for capital projects. State appropriations increased by \$3,132,312 or 6.21% from the previous year and capital grants net of refunds increased by \$1,599,613 or 97.86%. The large percentage of increase in capital grants and refunds results from receiving an increase in capital funding in fiscal year 2010 and the reduction in the refund of prior year appropriations from 2009 to 2010. The University was mandated to revert prior years' capital appropriations to the state in both fiscal year 2009 and 2010 to meet statewide budget needs. The reversion in 2009 was \$584,640 compared to the reversion of \$96,686 in 2010. State Aid from Federal Recovery Funds for fiscal year 2010 was \$2,972,183 compared to \$1,808,539 for an increase of \$1,163,644 or 64.34% from the previous year.

Noncapital grants and gift revenues increased by \$6,190,199 or 34.98% primarily due to increased Pell funding from the federal government.

Total operating loss for 2010 was \$76,876,296. Since the State of North Carolina appropriation and significant student financial aid revenue is not included within operating revenue per GASB, the University shows a significant operating loss.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Net Asset Balances

At June 30, 2010, the gross value of plant assets was \$160,809,481. Accumulated depreciation was \$41,658,575 and related plant asset debt was \$32,689,940. Invested in Capital Assets, Net of Related Debt increased \$1,402,733 or 1.65% due primarily to the purchase of new equipment, an increase in construction in progress, and the reduction of plant debt.

Restricted expendable net assets totaled \$3,653,856 and restricted nonexpendable net assets totaled \$9,335,580 both representing amounts subject to externally imposed restrictions.

Unrestricted net assets totaled \$13,243,793 representing amounts not subject to externally imposed stipulations but internally designated for various activities and initiatives, including future construction projects.

Capital Assets and Long – Term Debt

The University expended \$615,364 during the year for building renovations, \$1,637,655 for capital equipment and \$1,044,636 for infrastructure.

University capital projects in the construction phase include the Nursing building and the Water Tower. During the year capital expenditures for the Nursing building were \$665,270 and the Water Tower were \$1,496,304. Capital expenditures for road improvements, sewer system upgrades and general renovations were \$551,074. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

At June 30, 2010, outstanding commitments on construction contracts were \$2,355,018. Retainage on outstanding construction contracts was \$22,012 at June 30, 2010.

At June 30, 2010, the University had outstanding bond indebtedness in the amount of \$11,070,000 of which \$670,000 is due within the next year, capital leases payable of \$21,619,940 of which \$423,972 is due within the next year and notes payable of \$206,743 of which \$102,214 is due within the next year. For more detailed information about outstanding debt, see Note 8 and Note 9 of the Notes to the Financial Statements.

Enrollment Activities

University enrollment was 6,661 for the fiscal year ending June 30, 2010. Total headcount increased by 358 students or 5.68% from fiscal year 2009. The University expects headcount enrollment to increase to 8,000 by 2013 resulting from increased focus on retention as well as growth in graduate and transfer students.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE TOTAL FALL ENROLLMENT

FISCAL YEAR	FULL TIME EQUIVALENT	HEAD COUNT
2001	2,897	3,471
2002	3,328	3,975
2003	3,768	4,390
2004	4,110	4,698
2005	4,320	4,997
2006	4,841	5,575
2007	4,950	5,786
2008	5,150	5,937
2009	5,415	6,303
2010	5,828	6,661

Banner HR/Payroll System Implementation

During the year the University successfully implemented a new Banner HR/Payroll system. Implementation was a joint effort between the University and the University of North Carolina General Administration's Shared Services department. The project began in fiscal year 2008 with the first bi-weekly payroll processed in October 2009. In January 2010 the payroll project was fully implemented with both bi-weekly and monthly employees paid through the new Banner HR/Payroll system. Over \$5,000,000 in salaries and benefits are paid monthly to more than 1,000 employees including faculty, staff, students, temporary and contract workers.

The University and Shared Services agreed to specifically assigned duties to ensure that each payroll is processed timely and efficiently. Shared Services is reimbursed by the University for functional and technical services provided. Fees are calculated based on an approved formula for services rendered.

Processing payroll is an immense task that requires considerable skill, experience and focus. As such many employees must work as a team to process each payroll. Human Resources, Payroll, Accounts Payable and Finance have important roles for ensuring that employees are paid accurately, in accordance with good internal controls and in compliance with State and University personnel policy. The management of the University is of the opinion that each of these objectives has been achieved.

The UNCP Student Housing Foundation LLC Residence Hall Project

On June 1, 2010, The UNCP Student Housing Foundation LLC entered into an agreement with Bank of America to borrow \$5,000,000 to finance a portion of the costs of a new residence hall that will provide an additional 476 beds. The bridge loan is evidenced by a promissory note and will be used to begin construction in anticipation of issuing bonds. After the bonds are issued the promissory note and accrued unpaid interest will be repaid in full.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Standard & Poor's has assigned an A- rating to The UNCP Student Housing Foundation LLC's series 2010A and 2010B limited obligation bonds. Total bonds executed and to be delivered is \$20,890,000. The University expects to close on the bonds and repay the promissory note in the first half of fiscal year 2011. For more detailed information regarding the bonds and the impact to the University, see Note 18 of the Notes to the Financial Statements.

Economic Factors and Future Operations

During the year ended June 30, 2010, the state made a permanent 5% cut to the base State appropriation. In addition, a 5% reversion in cash allotted to the University was instituted resulting in 5% less cash. The net cut and reversion was \$6,414,381. The fiscal year 2010 reversion of 5% was restored in the fiscal year 2011 base budget. State appropriations for fiscal year 2010 were greater than fiscal year 2009 by 6.21% even with the cut and reversion. The cuts were offset by reducing expenditures which included eliminating some staff positions and temporary labor, deferring salary increases, reducing advertising and curtailing all but essential travel.

The University is dependent on State appropriations for general operations and capital funding to construct and maintain facilities. For fiscal year 2011 the original appropriation is \$60,010,797. State agencies have been asked to review budgets in order to absorb budget reversions and cuts that are expected to be in the range of 4% to 10%. During fiscal year 2010 the University received State Aid – Federal Recovery Funds of \$2,972,183. This represents a 64.34% increase over the \$1,808,539 received in fiscal year 2009. The University does not expect to receive any State Aid – Federal Recovery Funds during fiscal year 2011.

Capital grants increased by a modest \$1,111,659 or 50.09% from fiscal year 2009 to 2010. We are hopeful that the once generous levels of funding for new capital projects, capital renovations and maintenance of capital facilities will be restored as State finances and the economy improves.

Budget pressures will persist as weaknesses in the economy continue to affect revenue collections. We are optimistic that as the economy improves and enrollment continues to increase that State appropriations and capital funding will return to more generous levels. During the past year student enrollment, tuition and fees, bookstore sales, and food service revenue increased over the previous year.

The University's professionally managed endowment increased from \$7,895,919 in fiscal year 2009 to \$9,256,441 in fiscal year 2010 for an increase of \$1,360,522 or 17.23%. This change includes earnings, fees, realized and unrealized gains and losses, deposits and withdrawals. University management, along with its investment management advisors, plan to continue their efforts of monitoring these investments to maximize returns.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
TABLE 1 - SUMMARY OF CONDENSED FINANCIAL STATEMENTS TOTALS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009

	FY 2010	FY 2009 (as restated)	INCREASE/ DECREASE	PERCENT CHANGE
STATEMENTS OF NET ASSETS				
Current Assets	\$ 22,417,867	\$ 19,771,931	\$ 2,645,936	13.38%
Capital Assets, Net	119,150,906	118,794,550	356,356	0.30%
Other Noncurrent Assets	12,760,357	12,810,010	(49,653)	-0.39%
TOTAL ASSETS	154,329,130	151,376,491	2,952,639	1.95%
Current Liabilities	4,141,049	5,223,820	(1,082,771)	-20.73%
Noncurrent Liabilities	37,493,886	38,657,624	(1,163,738)	-3.01%
TOTAL LIABILITIES	41,634,935	43,881,444	(2,246,509)	-5.12%
Invested in Capital Assets, Net of Related Debt	86,460,966	85,058,233	1,402,733	1.65%
Restricted				
Expendable	3,653,856	5,423,941	(1,770,085)	-32.63%
Nonexpendable	9,335,580	8,352,297	983,283	11.77%
Unrestricted	13,243,793	8,660,576	4,583,217	52.92%
TOTAL NET ASSETS	\$ 112,694,195	\$ 107,495,047	\$ 5,199,148	4.84%
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Student Tuition and Fees, Net	\$ 17,571,199	\$ 16,111,223	\$ 1,459,976	9.06%
Grants and Contracts	3,199,264	3,322,763	(123,499)	-3.72%
Sales and Services, Net	12,666,600	12,445,120	221,480	1.78%
Other Operating Revenues	483,946	367,688	116,258	31.62%
TOTAL OPERATING REVENUES	33,921,009	32,246,794	1,674,215	5.19%
Salaries and Benefits	60,612,707	59,377,050	1,235,657	2.08%
Supplies and Materials	10,596,886	7,891,174	2,705,712	34.29%
Services	17,236,039	20,532,658	(3,296,619)	-16.06%
Scholarships and Fellowships	12,768,812	9,191,308	3,577,504	38.92%
Utilities	3,928,914	3,999,851	(70,937)	-1.77%
Depreciation	5,653,947	5,542,646	111,301	2.01%
TOTAL OPERATING EXPENSES	110,797,305	106,534,687	4,262,618	4.00%
OPERATING LOSS	(76,876,296)	(74,287,893)	(2,588,403)	3.48%
State Appropriations	53,580,406	50,448,094	3,132,312	6.21%
State Aid - Federal Recovery Funds	2,972,183	1,808,539	1,163,644	64.34%
Noncapital Grants and Gifts	23,887,693	17,697,494	6,190,199	34.98%
Other Nonoperating Expenses, Net	(2,259,470)	(3,442,881)	1,183,411	-34.37%
NET NONOPERATING REVENUES	78,180,812	66,511,246	11,669,566	17.55%
Capital Grants	3,330,829	2,219,170	1,111,659	50.09%
Refund of Prior Years Capital Appropriations	(96,686)	(584,640)	487,954	-83.46%
Capital Appropriations		75,000	(75,000)	-100.00%
Additions to Permanent Endowments	660,489	1,188,853	(528,364)	-44.44%
INCREASE (DECREASE) IN NET ASSETS	5,199,148	(4,878,264)	10,077,412	-206.58%
NET ASSETS-BEGINNING OF YEAR	107,495,047	110,701,445	(3,206,398)	-2.90%
NET ASSETS RESTATEMENT		1,671,866	(1,671,866)	
NET ASSETS-END OF YEAR	\$ 112,694,195	\$ 107,495,047	\$ 5,199,148	4.84%

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 14,187,067
Restricted Cash and Cash Equivalents	3,223,733
Receivables, Net (Note 4)	2,517,549
Inventories	2,244,577
Notes Receivable, Net (Note 4)	244,941
	<hr/>
Total Current Assets	22,417,867

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,524,726
Receivables, Net (Note 4)	28,407
Restricted Due from Primary Government	27,521
Endowment Investments	9,256,441
Other Investments	40,156
Notes Receivable, Net (Note 4)	883,106
Capital Assets - Nondepreciable (Note 5)	6,661,470
Capital Assets - Depreciable, Net (Note 5)	112,489,436
	<hr/>
Total Noncurrent Assets	131,911,263
	<hr/>
Total Assets	154,329,130

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,293,902
Due to Primary Government	40,058
Unearned Revenue	847,307
Interest Payable	444,029
Long-Term Liabilities - Current Portion (Note 8)	1,515,753
	<hr/>
Total Current Liabilities	4,141,049

Noncurrent Liabilities:

Deposits Payable	240,928
Funds Held for Others	1,620,508
U. S. Government Grants Refundable	1,187,591
Long-Term Liabilities (Note 8)	34,444,859
	<hr/>
Total Noncurrent Liabilities	37,493,886
	<hr/>
Total Liabilities	41,634,935

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2010

Exhibit A-1

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	86,460,966
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,904,462
Endowed Professorships	5,148,676
Departmental Uses	149,293
Loans	133,149
Expendable:	
Scholarships and Fellowships	252,588
Departmental Uses	2,040,535
Capital Projects	1,360,733
Unrestricted	<u>13,243,793</u>
Total Net Assets	<u><u>\$ 112,694,195</u></u>

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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 17,571,199
Federal Grants and Contracts	2,556,206
State and Local Grants and Contracts	476,452
Nongovernmental Grants and Contracts	166,606
Sales and Services, Net (Note 10)	12,666,600
Interest Earnings on Loans	131,820
Other Operating Revenues	352,126
	<hr/>
Total Operating Revenues	33,921,009
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	60,612,707
Supplies and Materials	10,596,886
Services	17,236,039
Scholarships and Fellowships	12,768,812
Utilities	3,928,914
Depreciation	5,653,947
	<hr/>
Total Operating Expenses	110,797,305
	<hr/>
Operating Loss	(76,876,296)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	53,580,406
State Aid - Federal Recovery Funds	2,972,183
Noncapital Grants - Federal Student Financial Aid	15,728,004
Other Noncapital Grants	7,721,137
Noncapital Gifts, Net	438,552
Investment Loss	(441,533)
Interest and Fees on Debt	(1,807,257)
Other Nonoperating Expenses	(10,680)
	<hr/>
Net Nonoperating Revenues	78,180,812
	<hr/>
Income Before Other Revenues and Expenses	1,304,516
	<hr/>
Refund of Prior Years Capital Appropriations	(96,686)
Capital Grants	3,330,829
Additions to Endowments	660,489
	<hr/>
Increase in Net Assets	5,199,148

NET ASSETS

Net Assets - July 1, 2009 (as restated)	<hr/> 107,495,047
Net Assets - June 30, 2010	<hr/> <hr/> \$ 112,694,195

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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 34,207,653
Payments to Employees and Fringe Benefits	(61,584,279)
Payments to Vendors and Suppliers	(32,778,683)
Payments for Scholarships and Fellowships	(12,768,812)
Loans Issued	(74,867)
Collection of Loans	221,076
Interest Earned on Loans	131,820
Other Receipts	352,127
	<hr/>
Net Cash Used by Operating Activities	(72,293,965)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	53,580,406
State Aid - Federal Recovery Funds	2,972,183
Noncapital Grants - Student Financial Aid	15,728,004
Noncapital Grants	7,321,090
Noncapital Gifts	438,552
Additions to Endowments	660,489
Federal Family Education Loans Receipts	30,818,023
Federal Family Education Loans Disbursements	(30,928,664)
Other Receipts	696,250
	<hr/>
Net Cash Provided by Noncapital Financing Activities	81,286,333

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Refund of Prior Years Capital Appropriations	(96,686)
Capital Grants	3,329,974
Proceeds from Sale of Capital Assets	4,713
Acquisition and Construction of Capital Assets	(6,006,487)
Principal Paid on Capital Debt and Leases	(1,146,327)
Interest and Fees Paid on Capital Debt and Leases	(1,509,108)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(5,423,921)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	8,867,227
Investment Income	156,262
Purchase of Investments and Related Fees	(11,171,315)
	<hr/>
Net Cash Used by Investing Activities	(2,147,826)
	<hr/>
Net Increase in Cash and Cash Equivalents	1,420,621
Cash and Cash Equivalents - July 1, 2009	18,514,905
	<hr/>
Cash and Cash Equivalents - June 30, 2010	\$ 19,935,526

The University of North Carolina at Pembroke
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3

Page 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$	(76,876,296)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		5,653,947
Allowances and Write-Offs		243,336
Changes in Assets and Liabilities:		
Receivables (Net)		172,967
Inventories		(418,165)
Notes Receivable (Net)		150,959
Accounts Payable and Accrued Liabilities		(1,490,232)
Unearned Revenue		312,011
Compensated Absences		(49,412)
Deposits Payable		6,920
		<hr/>
Net Cash Used by Operating Activities	\$	<u>(72,293,965)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	14,187,067
Restricted Cash and Cash Equivalents		3,223,733
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,524,726
		<hr/>
Total Cash and Cash Equivalents - June 30, 2010	\$	<u>19,935,526</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$	(834,458)
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The accompanying notes to the financial statements are an integral part of this statement.

The University of North Carolina at Pembroke Foundations
Statement of Financial Position
June 30, 2010

Exhibit B-1

	University of North Carolina at Pembroke Foundation Inc.	The UNCP University Foundation LLC	The UNCP Student Housing Foundation LLC
ASSETS			
Cash and Cash Equivalents	\$ 1,098,495	\$ 104,407	\$ 5,257,382
Pooled Investments Held by Fiscal Agent	2,546,645		
Cash Surrender Value of Life Insurance	48,212		
Security Deposits		56,241	
Assets Held by Trustees		1,289,091	1,341,367
Capital Lease Receivable			21,619,939
Accounts Receivable		29,878	
Unconditional Promises to Give, Net	478,539		
Prepaid Expenses		26,315	
Deferred Charges		420,815	
Construction in Progress			2,083,354
Property and Equipment, Net	4,132,002	7,011,972	
Total Assets	8,303,893	8,938,719	30,302,042
LIABILITIES			
Accounts Payable and Accrued Expenses	3,796	103,114	1,256,115
Unearned Revenue		69,194	
Interest Payable	28,378	35,097	306,902
Tenant Security Deposit		40,200	
Interest Rate Swap Fair Value Liability		1,989,978	
Notes Payable	1,857,220		5,000,000
Bonds Payable		10,545,000	21,645,000
Total Liabilities	1,889,394	12,782,583	28,208,017
NET ASSETS			
Unrestricted	228,897	(3,843,864)	2,094,025
Temporarily Restricted	3,687,572		
Permanently Restricted	2,498,030		
Total Net Assets	\$ 6,414,499	\$ (3,843,864)	\$ 2,094,025

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

The University of North Carolina at Pembroke Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Exhibit B-2

	University of North Carolina at Pembroke Foundation Inc.	The UNCP University Foundation LLC	The UNCP Student Housing Foundation LLC
CHANGES IN UNRESTRICTED NET ASSETS			
Revenues and Gains:			
Contributions	\$ 189,549	\$ 0	\$ 0
Income Earned on Investments	16,765		
Unrealized Gain on Investments	1,326		
Rental and Interest Income		1,651,959	1,001,719
Miscellaneous Income		57,733	
Total Unrestricted Revenues and Gains	<u>207,640</u>	<u>1,709,692</u>	<u>1,001,719</u>
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>414,296</u>		
Total Net Assets Released from Restrictions	<u>414,296</u>		
Total Unrestricted Revenues, Gains, and Other Support	<u>621,936</u>	<u>1,709,692</u>	<u>1,001,719</u>
Expenses:			
Contributions to the University of North Carolina at Pembroke	309,975		
Management and General	316,792		
Salaries and Employee Benefits		123,683	
Repairs and Maintenance		79,249	
Utilities		353,692	
Property Management Fee		83,700	
Property Insurance		26,661	
Miscellaneous Operating Expenses		121,733	
Interest on Debt		417,714	998,308
Other Financial Expense		166,528	
Change in Fair Value of Interest Rate Swap		439,983	
Depreciation		292,382	
Amortization		19,881	
Professional Fees			3,500
Fiscal Agent Fees			44,735
Contribution to UNCP Foundation Inc.			150,000
Other			1,773
Total Expenses	<u>626,767</u>	<u>2,125,206</u>	<u>1,198,316</u>
Decrease in Unrestricted Net Assets	<u>(4,831)</u>	<u>(415,514)</u>	<u>(196,597)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	593,104		
Investment Gain	71,707		
Unrealized Gain on Investments	170,035		
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>(414,296)</u>		
Increase in Temporarily Restricted Net Assets	<u>420,550</u>		
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	188,272		
Investment Gain	1,230		
Unrealized Loss on Investments	<u>(5,017)</u>		
Increase in Permanently Restricted Net Assets	<u>184,485</u>		
Increase (Decrease) in Net Assets	600,204	(415,514)	(196,597)
Net Assets at Beginning of Year	<u>5,814,295</u>	<u>(3,428,350)</u>	<u>2,290,622</u>
Net Assets at End of Year	<u>\$ 6,414,499</u>	<u>\$ (3,843,864)</u>	<u>\$ 2,094,025</u>

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

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component 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 are 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. 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 11 elected public directors, four elected non-public directors, and two 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 University by the donors. Because these

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The UNCP University Foundation LLC and The UNCP Student Housing Foundation LLC 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 purposes 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 major activities of the Courtyard are governed by an operating agreement. The University of North Carolina at Pembroke Inc. is the sole member of the Courtyard. The UNCP Student Housing Foundation LLC (the “Housing LLC”) 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 student housing projects. The property locations are on the campus of The University of North Carolina at Pembroke and are currently known as the University Village Apartments and Oak Hall. Each site has 360 beds. The major activities of the Housing LLC are governed by operating agreements. The University of North Carolina at Pembroke Foundation Inc. is the sole member of the Housing LLC. The Foundations are reported in separate financial statements because of the differences 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 the Governmental Accounting Standards Board (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, 2010, the University of North Carolina at Pembroke Foundation Inc. distributed \$309,975 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments are reported 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.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale in the bookstore is valued using the weighted average method. Merchandise for resale in the Native American Resource Center is valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 100 years for buildings, 2 to 30 years for equipment, and 2 to 30 years for computer software.

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** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, notes 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. Deferred gains/losses on defeased bonds are also considered immaterial and are expensed rather than amortized.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as 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 *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$19,878,145 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2010 was \$18,566. The carrying amount of the University's deposits not with the State Treasurer was \$38,815 and the bank balance was \$6,801. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2010, the University's bank balance was covered by federal depository insurance and was not exposed to custodial credit risk.

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

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

Investments of the University's component units, University of North Carolina Foundation Inc, The UNCP University Foundation LLC, and The UNCP Student Housing Foundation LLC, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

foreign securities held by the University are traded in currency of the United States, and thus, there is no foreign currency risk for these investments.

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 pro-rata 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 822,200	\$ 2,385	\$ 348,991	\$ 366,514	\$ 104,310
U.S. Agencies	750,494	1,129	494,365	84,325	170,675
Collateralized Mortgage Obligations	75,043	465	19,474	34,760	20,344
State and Local Governments	32,127		8,536	14,881	8,710
Mutual Bond Funds	1,053,918	1,053,918			
Money Market Mutual Funds	380,690	380,690			
Domestic Corporate Bonds	1,064,129	36,064	362,258	535,046	130,761
Foreign Government Bonds	29,435		7,821	13,634	7,980
		<u>\$ 1,474,651</u>	<u>\$ 1,241,445</u>	<u>\$ 1,049,160</u>	<u>\$ 442,780</u>
Other Securities					
International Mutual Funds	38,100				
Other Mutual Funds	24,498				
Real Estate Investment Trusts	253,385				
Hedge Funds	778,660				
Domestic Stocks	5,090,112				
Foreign Stocks	1,118,124				
Other	292,171				
Total Long-Term Investment Pool	<u>\$ 11,803,086</u>				

At June 30, 2010, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	\$ 750,494	\$ 670,197	\$ 50,125	\$ 30,172	\$ 0	\$ 0
Collateralized Mortgage Obligations	75,043		30,010	22,100	22,933	
State and Local Governments	32,127	21,100	11,027			
Mutual Bond Funds	1,053,918				1,053,918	
Money Market Mutual Funds	380,690	131,980				248,710
Domestic Corporate Bonds	1,064,129	310,601	134,461	346,925	214,435	57,707
Foreign Government Bonds	29,435		13,246	16,189		

Rating Agency: Standard & Poor's

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years) More than 10
	Annuity Contracts	\$ 40,156

At June 30, 2010, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	Unrated
Annuity Contracts	\$ 40,156	\$ 40,156

Total Investments - The following table presents the fair value of the total investments at June 30, 2010:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	<u>Fair Value</u>
Debt Securities	
U.S. Treasuries	\$ 822,200
U.S. Agencies	750,494
Collateralized Mortgage Obligations	75,043
State and Local Governments	32,127
Annuity Contracts	40,156
Mutual Bond Funds	1,053,918
Money Market Mutual Funds	380,690
Domestic Corporate Bonds	1,064,129
Foreign Government Bonds	29,435
Other Securities	
Domestic Stocks	5,090,112
Foreign Stocks	1,118,124
International Mutual Funds	38,100
Other Mutual Funds	24,498
Real Estate Investment Trusts	253,385
Hedge Funds	778,660
Other	292,171
Total Investments	<u>\$ 11,843,242</u>

Total investments include \$2,546,645 held in the Endowment Fund for component units that are discretely presented in the accompanying financial statements.

Component Units - Investments of the University's discretely presented component units, 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 G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundations report under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments and reserves:

University of North Carolina at Pembroke Foundation Inc.

All investments are valued at market value. The book value of the investments held by the fiscal agent compared to the market value at June 30, 2010 was as follows:

	<u>Book Balance</u>	<u>Market Value</u>
Pooled Investment Funds	<u>\$ 2,772,376</u>	<u>\$ 2,546,645</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2010.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income Eamed on Investments	\$ 16,765	\$ 71,707	\$ 1,230	\$ 89,702
Net Unrealized Gains (Loss)	1,326	170,035	(5,017)	166,344
Investment Return (Loss), Net	\$ 18,091	\$ 241,742	\$ (3,787)	\$ 256,046

The UNCP University Foundation LLC

The funds held by the Bond Trustees consist of cash, money market investments, and securities that are primarily issued by the U.S. Government. These short-term investments are stated at cost, which approximates their market value.

Under the terms of the Trust Indenture, various funds such as Construction, Reimbursement, Capitalized Interest, and Debt Service must be established and maintained for the Organization.

The bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverages.

At June 30, 2010 funds held by the Trustee consist of:

	June 30, 2010
Debt Service Reserve	\$ 901,400
Residual	47
Bond Fund Principal	240,000
Revenue Fund	21,000
Trustee Bond Fund Reimbursement	82,405
Other Trustee Funds	44,239
Total	\$ 1,289,091

The UNCP Student Housing Foundation LLC

Under the terms of the Trust Indenture, various funds such as Construction, Reimbursement, Capitalized Interest, and Debt Service must be established and maintained for the Housing LLC.

The bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverages.

At June 30, 2010 funds held by the Trustee consist of:

	<u>June 30, 2010</u>
Revenue	\$ 897,472
Construction	398,532
Debt Service Reserve	63
Capitalized Interest	<u>45,300</u>
Total	<u>\$ 1,341,367</u>

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 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, 2010, endowment net assets of \$152,340 were available to be spent, of which \$137,572 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,710,575	\$ 667,961	\$ 1,042,614
Accounts	33,298		33,298
Intergovernmental	1,349,902		1,349,902
Pledges	129,622	38,887	90,735
Other	1,000		1,000
Total Current Receivables	\$ 3,224,397	\$ 706,848	\$ 2,517,549
Noncurrent Receivables:			
Pledges	\$ 40,581	\$ 12,174	\$ 28,407
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 227,214	\$ 45,756	\$ 181,458
Institutional Student Loan Programs	70,957	7,474	63,483
Total Notes Receivable - Current	\$ 298,171	\$ 53,230	\$ 244,941
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,073,948	\$ 190,842	\$ 883,106

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 2,085,642	\$ 0	\$ 0	\$ 2,085,642
Art, Literature, and Artifacts	168,730			168,730
Construction in Progress	1,694,450	2,712,648		4,407,098
Total Capital Assets, Nondepreciable	3,948,822	2,712,648		6,661,470
Capital Assets, Depreciable:				
Buildings	123,655,530	615,364		124,270,894
Machinery and Equipment	9,867,009	1,637,655	40,678	11,463,986
General Infrastructure	17,368,495	1,044,636		18,413,131
Total Capital Assets, Depreciable	150,891,034	3,297,655	40,678	154,148,011
Less Accumulated Depreciation for:				
Buildings	26,094,849	3,340,568		29,435,417
Machinery and Equipment	5,260,189	1,361,342	40,678	6,580,853
General Infrastructure	4,690,268	952,037		5,642,305
Total Accumulated Depreciation	36,045,306	5,653,947	40,678	41,658,575
Total Capital Assets, Depreciable, Net	114,845,728	(2,356,292)		112,489,436
Capital Assets, Net	\$ 118,794,550	\$ 356,356	\$ 0	\$ 119,150,906

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 1,049,179
Accrued Payroll	105,850
Contract Retainage	22,012
Other	116,861
Total Accounts Payable and Accrued Liabilities	\$ 1,293,902

NOTE 7 - SHORT-TERM DEBT – LETTER OF CREDIT

Component Unit – The UNCP University Foundation LLC – In connection with the long-term debt, the Foundation has a letter of credit in the amount of \$11,775,445 with Wachovia Bank, National Association, formerly known as First Union National Bank. The letter of credit serves as a credit enhancement to the bonds and expires June 12, 2011. There has been no activity on this line of credit during the 2010 fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	\$ 11,710,000	\$ 0	\$ 640,000	\$ 11,070,000	\$ 670,000
Notes Payable	306,693		99,950	206,743	102,214
Capital Leases Payable	22,026,317		406,377	21,619,940	423,972
Compensated Absences	3,113,341	264,101	313,513	3,063,929	319,567
Total Long-Term Liabilities	\$ 37,156,351	\$ 264,101	\$ 1,459,840	\$ 35,960,612	\$ 1,515,753

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010	See Table Below
The University of North Carolina System Pool Revenue Bonds							
Housing System	1998B	4.00%-5.25%	09/25/2018	\$ 3,130,000	\$ 1,320,000	\$ 1,810,000	(1)
Recreational Facilities	2006B	3.75%-5.00%	09/25/2021	816,940	150,000	666,940	
Dining System	2006B	3.75%-5.00%	09/25/2016	518,060	145,000	373,060	
University Center Expansion Supplement	2006B	3.75%-5.00%	09/25/2026	1,965,000	200,000	1,765,000	
Recreational Center Improvements	2002B	3.50%-5.00%	03/10/2012	605,000	455,000	150,000	
Surface Parking Lot	2002B	3.50%-5.00%	03/10/2012	285,000	215,000	70,000	
University Center Renovations	2003B	2.00%-4.75%	03/10/2028	3,100,000	614,706	2,485,294	
Auxillary Services Building	2003B	2.00%-4.75%	03/10/2028	1,550,000	307,353	1,242,647	
Recreational Facilities	2003B	2.00%-4.75%	03/10/2028	620,000	122,941	497,059	
Multipurpose Facility - Athletic Field House	2008A	3.00%-5.00%	10/01/2033	2,055,000	45,000	2,010,000	
Total Revenue Bonds Payable				\$ 14,645,000	\$ 3,575,000	\$ 11,070,000	

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	2,212,178	769,699	160,000	89,331	32%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2011	\$ 670,000	\$ 487,814	\$ 102,214	\$ 9,365
2012	690,000	459,742	104,529	4,735
2013	605,000	429,649		
2014	625,000	403,486		
2015	660,000	376,659		
2016-2020	3,155,000	1,460,669		
2021-2025	2,400,000	866,198		
2026-2030	1,755,000	297,403		
2031-2034	510,000	52,250		
Total Requirements	\$ 11,070,000	\$ 4,833,870	\$ 206,743	\$ 14,100

D. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2010, the outstanding balance of prior year defeased bonds was \$1,065,000.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Noncapitalized Banner Software and Equipment	Branch Banking & Trust	4.53%	01/05/2012	\$ 500,000	\$ 293,527	\$ 206,743

Component Units:

University of North Carolina at Pembroke Foundation Inc. – Notes payable at June 30, 2010, consists of a loan obtained from Bank of America to construct a field house for the UNCP Football program. Interest is at an adjustable rate of 6.35%. Term of the loan is 18 years. Principal amounts payable on the outstanding note during the next five years and thereafter are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year	Principal
2011	\$ 188,079
2012	200,376
2013	213,477
2014	227,434
2015	242,304
Thereafter	785,550
Total	1,857,220
Less Current Maturities	(188,079)
Net Long-Term Portion	\$ 1,669,141

The UNCP University Foundation LLC – Long-term debt consists of \$10,305,000 at June 30, 2010. Tax-exempt series 2001A term bonds dated January 24, 2001, are due at various intervals through 2031, and are payable in monthly installments of interest and annual installments of principal. The bonds bear interest at various interest rates up to 12%, as defined in the Trust Indenture, and are secured by deed and assignment of rents.

As described above, the mortgage payable bears interest at a variable rate. To minimize the effect of changes in interest rates, the Organization entered into an interest rate swap agreement under which it pays interest at a fixed rate of 3.96% and receives interest at a variable rate. The variable rate under the swap is based on the same notional amount as the underlying mortgage. However, the variable rate of interest is calculated differently on the swap than on the variable rate bonds plus portions of the bond have fixed interest rates. As a result, the swap is only partially effective as a hedge. Valued separately, the interest rate swap agreement represents a liability as of June 30, 2010, in the amount of \$1,989,978. This value represents the fair value of the current difference in interest paid and received under the swap agreement over the remaining term of the agreement. Payments are recognized in current operating results as settlements as they occur under the agreement as a component of interest expense.

The portion of the settlement payments that are effective as a cash flow hedge are included as a component of interest expense and result in an effective interest rate of 3.96%. The ineffective portion of the settlement payments in fiscal year 2010 was \$14,669, and has been included in the change in fair value of the interest rate swap. The swap matures July 1, 2031. Only interest payments are due under the swap agreement. Total payments due during the next 12 months, net of receipts, are not reasonably estimable because fluctuations in interest rates cannot be estimated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The liability of the Organization under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee.

The first monthly interest payment on the bonds began on July 1, 2001. As of June 30, 2010, \$35,097 is accrued.

Maturities of long-term debt at June 30, 2010, are as follows:

Fiscal Year	Principal
2011	\$ 240,000
2012	255,000
2013	270,000
2014	285,000
2015	305,000
Thereafter	<u>9,190,000</u>
Total	10,545,000
Less Current Maturities	<u>(240,000)</u>
Net Long-Term Portion	<u><u>\$ 10,305,000</u></u>

The UNCP Student Housing Foundation LLC

Village Apartments

Long-term debt at June 30, 2010, consists of tax exempt Series 2004 Certificate of Participation bonds dated January 1, 2004, and due at various intervals through 2034 used (1) to refinance the cost of the construction, acquisition and equipping of an existing 216-bed student housing facility and to finance the cost of the construction, acquisition and equipping of a 144-bed student housing facility, each on the campus of UNCP in Pembroke, North Carolina, (2) to pay capitalized interest with respect to the portion of the 2004 Certificates allocable to the expansion project during construction thereof, (3) to fund a debt service, and (4) to pay expenses related to the 2004 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004 for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated January 1, 2004

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

between the Housing LLC and UNCP and agreed to pay the Trustee (First-Citizens Bank and Trust Company), as base rentals, amounts that correspond to the rental payments required to be paid by the State under the Lease.

The principal and interest are payable in semi-annual installments of interest and annual installments of principal from the amounts payable by UNCP and amounts held under the Indenture and its provisions. The bonds bear interest at various rates up to 5%, as defined in the Indenture of Trust. The bonds are secured by a Leasehold Deed of Trust, Security Agreement and Assignment of Rents and Leases dated January 1, 2004, from the Housing LLC to the deed of trust trustee, granting a lien of record on the mortgaged property which includes the Housing LLC's leasehold interest in the land described in the Ground Lease. Payment of the principal and interest is insured by a financial guaranty insurance policy issued by XL Capital Assurance Inc.

The 2004 Certificates are subject to optional, mandatory and extraordinary prepayment prior to their maturity.

Oak Hall

Long-term debt as of June 30, 2010 consists of tax exempt Series 2006 Certificate of Participation bonds dated April 19, 2006 and due at various intervals through 2037 used to finance (1) the cost of the construction, acquisition and equipping of an approximately 360-bed student housing facility on the campus of The University of North Carolina at Pembroke, (2) the payment of capitalized interest with respect to the 2006 Certificates during construction of the New Project, (3) the payment of the premium for the financial guaranty insurance policy, (4) the payment of premiums on the debt service reserve fund policies, and (5) the payment of certain expenses incurred in connection with the execution and delivery of the 2006 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003 between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004 for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated January 1, 2004, between the Housing LLC and UNCP and agreed to pay the Trustee (First-Citizens Bank & Trust Company), as

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

base rentals, amounts that correspond to the rental payments required to be paid by the State under the Lease.

The principal and interest are payable in semi-annual installments of interest and annual installments of principal from the amounts held by UNCP and amounts held under the Indenture and its provisions. The bonds bear interest at various rates up to 5%, as defined in the Indenture of Trust. The bonds are secured by a Leasehold Deed of Trust, Security Agreement and Assignment of Rents and Leases dated January 1, 2004, from the Housing LLC to the deed of trust trustee, granting a lien of record on the mortgaged property which includes the Housing LLC's leasehold interest in the land described in the Ground Lease. Payment of the principal and interest is insured by a financial guaranty insurance policy issued by XL Capital Assurance Inc.

The 2006 Certificates are subject to optional, mandatory and extraordinary prepayment prior to their maturity.

New Residence Hall

The Housing LLC secured financing on June 1, 2010, on a \$5,000,000 Bridge Loan through the Bank of America, N.A. This short-term loan will mature on December 1, 2010 and has a variable interest rate per annum on LIBOR Base Rate plus .65%. The funds are currently being used to begin construction on a new suite-style residence hall facility, which will provide an additional 476 beds of student housing and approximately 194 parking spaces on behalf of the University.

The Second Amendment and Restated 2004 Use Agreement between the Housing LLC and UNCP will govern the extending of the lease agreement for 39 years and 2 months commencing on January 27, 2004 for under the 2004 Lease and end on March 1, 2043, under the Second Amended and Supplemented 2004 Lease Agreement. The new agreement will become active on July 1, 2010. The Bridge Loan will be paid in full by proceeds from the sale of 2010 Limited Obligation Bonds that is scheduled to close on October 7, 2010.

Annual Requirements – The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010 are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year	Principal	Interest
2011	\$ 450,000	\$ 908,631
2012	500,000	829,806
2013	520,000	891,606
2014	545,000	831,156
2015	560,000	819,919
Thereafter	19,070,000	11,215,496
Total Requirements	21,645,000	15,496,614
Less: Current Maturities	(450,000)	(908,631)
Net Long-Term Portion	<u>\$ 21,195,000</u>	<u>\$ 14,587,983</u>

NOTE 9 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to University student housing is recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 1,345,635
2012	1,345,635
2013	1,345,635
2014	1,345,635
2015	1,345,635
2016-2020	6,728,173
2021-2025	6,728,173
2026-2030	6,728,173
2031-2035	6,728,173
2036-2038	3,364,087
Total Minimum Lease Payments	37,004,954
Amount Representing Interest (4.20% Rate of Interest)	15,385,014
Present Value of Future Lease Payments	<u>\$ 21,619,940</u>

Buildings acquired under capital lease amounted to \$23,310,000 at June 30, 2010.

- B. Operating Lease Obligations** - The University entered into operating leases for land, office space and office equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 400,234
2012	98,994
2013	100,219
Total Minimum Lease Payments	<u>\$ 599,447</u>

Rental expense for all operating leases during the year was \$450,736.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 26,323,123	\$ 0	\$ 8,518,976	\$ 232,948	\$ 17,571,199
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 6,452,872	\$ 123,864	\$ 2,204,499	\$ 0	\$ 4,124,509
Dining	4,663,476	173,882	1,510,180		2,979,414
Student Union Services	52,064	6			52,058
Health, Physical Education, and Recreation Services	1,227,088	15,905	663,055		548,128
Bookstore	5,125,826	21,837	1,167,280		3,936,709
Parking	312,796	231		82,207	230,358
Athletic	215,822	5,701			210,121
Central Stores	22,247	22,247			
Print Shop	406,797	406,694			103
Motor Pool	264,027	251,903			12,124
Other	391,258	115,114			276,144
Sales and Services of Education and Related Activities	467,801	170,869			296,932
Total Sales and Services	\$ 19,602,074	\$ 1,308,253	\$ 5,545,014	\$ 82,207	\$ 12,666,600

NOTE 11 - 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	\$ 31,579,384	\$ 1,979,628	\$ 1,313,918	\$ 750	\$ 2,461	\$	\$ 34,876,141
Research	303,119	53,427	52,465				409,011
Public Service	1,398,859	62,910	614,572	36,770			2,113,111
Academic Support	7,178,265	2,464,303	1,064,429	3,000	430		10,710,427
Student Services	3,413,371	304,331	1,635,193				5,352,895
Institutional Support	7,200,392	1,059,492	1,197,049		1,528		9,458,461
Operations and Maintenance of Plant	5,202,451	181,718	1,862,714		2,280,679		9,527,562
Student Financial Aid			198,359	12,728,142			12,926,501
Auxiliary Enterprises	4,336,866	4,491,077	9,297,340	150	1,643,816		19,769,249
Depreciation						5,653,947	5,653,947
Total Operating Expenses	\$ 60,612,707	\$ 10,596,886	\$ 17,236,039	\$ 12,768,812	\$ 3,928,914	\$ 5,653,947	\$ 110,797,305

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$48,460,969, of which \$23,049,067 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$822,852 and \$1,382,944, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$822,852, \$785,148, and \$642,660, respectively.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2010, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$48,460,969, of which \$19,903,683 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,361,412 and \$1,194,221, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$252,038 for the year ended June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, were \$22,950. The voluntary contributions by employees amounted to \$248,862 for the year ended June 30, 2010.

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 \$594,100 for the year ended June 30, 2010.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the University contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$1,932,874, \$1,813,311, and \$1,602,009, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010, 2009, and 2008, which were \$223,354, \$229,981, and \$203,182, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 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 are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Examples of such coverage are workers' compensation for non appropriated employees, student accident, student health, boiler and machinery accident and hazardous substance, internship liability, and commercial inland marine for music and related equipment, biodiesel, and fine arts.

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 retains the risk for workers' compensation.

The University retained the following risks as of June 30, 2010:

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 through the North Carolina Department of Insurance.

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

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

NOTE 15 - 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 \$2,355,018 and on other purchases were \$525,192 at June 30, 2010.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 105,823,181
Restatement: Error in establishing useful lives of capital assets	1,671,866
	<hr/>
July 1, 2009 Net Assets as Restated	<u>\$ 107,495,047</u>

NOTE 18 - SUBSEQUENT EVENTS

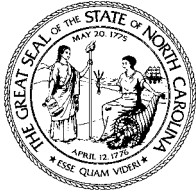
On October 7, 2010, The UNCP Student Housing Foundation LLC (Housing LLC) executed bonds to finance the construction of a new 476 bed residence hall and to repay the \$5,000,000 bridge loan. The bonds are comprised of a Series 2010A limited obligation bond in the amount of \$2,455,000 and a Series 2010B taxable limited obligation bond in the amount of \$18,435,000. Series 2010A, whose interest rates range from 2.5% to 4.00%, matures March 1, 2017. Series 2010B, whose interest rates range from 4.524% to 6.623%, matures March 1, 2042.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

The University, as a condition to the execution of the new bonds, entered into a Use Agreement with the Housing LLC in which the University agreed to operate and maintain the project for the term of the Use Agreement. In addition, the University is obligated to pay the rental payments under the lease through the payment of base rentals.

The annual requirements to pay base rentals to cover the interest and principal are as follows:

Fiscal Year	Principal	Interest
2011	\$ 0	\$ 489,967
2012	380,000	1,224,243
2013	390,000	1,214,743
2014	400,000	1,203,043
2015	415,000	1,191,043
Thereafter	19,305,000	20,178,451
Total Requirements	20,890,000	25,501,490
Less: Current Maturities		(489,967)
Net Long-Term Portion	\$ 20,890,000	\$ 25,011,523



Beth A. Wood, CPA
State Auditor

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

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 multi-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, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated April 27, 2011. Our report includes a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component units, as described in our report on the University's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

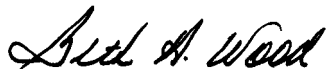
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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



Beth A. Wood, CPA
State Auditor

April 27, 2011

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