



STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011

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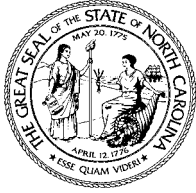
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
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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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

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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, 2011, 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, 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.

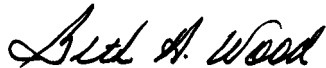
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, and The UNCP Student Housing Foundation LLC were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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

December 19, 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 2011 and 2010, 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 good or service is provided and expenses and liabilities are recognized when others provide the good or 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 gains. 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 financing and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, risks, and uncertainties 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 2011 to 2010

Comparative financial data of 2011 to 2010 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 \$8,982,922 or 5.81% from the prior year. Current assets increased by \$547,538 or 2.44% and other noncurrent assets increased by \$720,174 or 5.53%. Capital assets, Net increased by \$7,715,210 or 6.48% from the previous year.

The increase in current assets was the result of a \$2,842,514 increase in current cash, that was mostly attributable to an increase in accounts payables related to construction which required noncurrent cash to be reclassified as current in order meet the current obligation. This increase was partially offset by a \$529,510 or 56.83% decrease in student accounts receivable and a decrease of \$875,806 or 64.88% in intergovernmental receivables. The decrease in student accounts receivable was due to a more aggressive collection and write-off policy. The decrease in intergovernmental receivables was mainly due to the University not having any receivables related to Pell Grants at year end as was the case in the prior year. The increase in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

other noncurrent assets was mostly due to a \$2,705,609 or 29.23% increase in endowment investments due to appreciation. This increase was partially offset by a \$1,808,591 decrease in noncurrent restricted cash as a result of moving noncurrent restricted cash to current restricted cash for use in payment of current liabilities. The increase in capital assets reflects an increase of \$1,406,497 or 15.69% in equipment purchases and an increase of \$9,409,653 or 213.51% in construction in progress related to the new Allied Health building.

Total liabilities decreased by \$514,129 or 1.23% from the previous year. The decrease reflects an \$845,932 or 52.20% reduction in funds held for others, resulting from a decrease in deposits from foreign students participating in the foreign exchange program, and a continuing decline in University debt for bonds and leases related to capital projects and notes related to noncapital purchases. These decreases were modestly offset by a \$1,345,940 or 128.29% increase in accounts payable related to the construction of the Allied Health building.

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 gifts 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. Restricted expendable net assets decreased \$641,636 or 16.42%, due to increased spending for capital projects. Unrestricted net assets increased \$645,204 or 4.87% primarily due to an increase in auxiliary sales and an increase in state aid.

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 \$708,116 which is a 7.21% increase from fiscal year 2010. Endowments support 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 \$1,088,226 or 3.21% over the previous year. Grants and Contracts increased by \$119,145 or 3.72% reflecting a modest increase in funding for federal research grants. Sales and Services, Net, increased by \$825,649 or 6.52% and can be attributed to a general increase in prices and an increase in student enrollment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE OPERATING REVENUES BY CLASS

	<u>JUNE 30, 2011</u>	<u>JUNE 30, 2010</u>
Student Tuition and Fees (Net)	\$ 17,649,088	\$ 17,571,199
Federal Grants and Contracts	2,796,553	2,556,206
State and Local Grants and Contracts	280,179	476,452
Nongovernmental Grants and Contracts	241,677	166,606
Sales and Services (Net)	13,492,249	12,666,600
Other Operating Revenues	549,489	483,946
Total Operating Revenues	<u>\$ 35,009,235</u>	<u>\$ 33,921,009</u>

Total operating expenses increased by \$2,661,344 or 2.40% from the previous year reflecting a continuing effort by the University to monitor travel expenses, contracted services, communication expenses, as well as a decrease in depreciation expense. Supplies and material expenses increased by \$1,047,710 or 9.89% reflecting increased purchases of computers, software, and related equipment to upgrade systems and replace outdated computers and equipment. Services increased by \$1,262,022 or 7.32% representing increased costs for insurance and other service costs. Depreciation decreased by \$2,351,171 or 41.58% due to a change in the estimated useful lives for some assets. This change was posted as a decrease to current year depreciation in order to adjust useful lives of capital assets prospectively.

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

	<u>JUNE 30, 2011</u>	<u>JUNE 30, 2010</u>
Instruction	\$ 36,470,957	\$ 34,876,141
Research	599,842	409,011
Public Service	2,083,697	2,113,111
Academic Support	10,364,776	10,710,427
Student Services	5,021,452	5,352,895
Institutional Support	9,957,506	9,458,461
Operations & Maintenance of Plant	11,318,378	9,527,562
Student Financial Aid	13,290,657	12,926,501
Auxiliary Enterprises	21,048,608	19,769,249
Depreciation	3,302,776	5,653,947
Total Operating Expenses	<u>\$ 113,458,649</u>	<u>\$ 110,797,305</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE OPERATING EXPENSE BY CLASS

	<u>JUNE 30, 2011</u>	<u>JUNE 30, 2010</u>
Salaries and Benefits	\$ 62,916,481	\$ 60,612,707
Supplies and Materials	11,644,596	10,596,886
Services	18,498,061	17,236,039
Scholarships and Fellowships	13,187,179	12,768,812
Utilities	3,909,556	3,928,914
Depreciation	<u>3,302,776</u>	<u>5,653,947</u>
Total Operating Expenses	<u>\$ 113,458,649</u>	<u>\$ 110,797,305</u>

The University shows a significant operating loss of \$78,449,414 for 2011 since certain revenues and expenses are required per GASB to not be 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.

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 \$49,801,874, a decrease of \$3,778,532 or 7.05% for operations. The University also received \$9,364,181, an increase of \$6,033,352 or 181.14% in capital grants for capital projects. The large percentage increase in capital grants is a result of increased funds for the Allied Health building and an approved cash transfer for future land purchases. State aid from federal recovery funds for fiscal year 2011 was \$3,089,245 or an increase of 3.94% from the previous year.

Analysis of Net Asset Balances

At June 30, 2011, the gross value of plant assets was \$171,722,434. Accumulated depreciation was \$44,856,318 and related plant asset debt was \$31,595,967. Invested in Capital Assets, Net of Related Debt increased \$8,809,183 or 10.19% due primarily to the purchase of new equipment, increase in construction in progress and the reduction of plant debt.

Restricted expendable net assets totaled \$3,265,551 and restricted nonexpendable net assets totaled \$10,019,880 both representing amounts subject to externally imposed restrictions.

Unrestricted net assets totaled \$13,888,997 and represent amounts not subject to externally imposed stipulations, but may be internally designated for various activities and initiatives, including future construction projects.

Capital Assets and Long-Term Debt

The University expended \$1,504,350 during the year for capital equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

University capital projects in the construction phase include the Allied Health building, Water Tower, road improvements and sewer system improvements. During the year, capital expenditures for the Allied Health building were \$8,576,097. Water Tower expenditures were \$19,046. Capital expenditures for road improvements were \$899,793 and sewer system upgrades were \$21,898. For detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

At June 30, 2011, outstanding commitments on construction contracts were \$10,885,926. Retainage on outstanding construction contracts was \$333,999 at June 30, 2011.

At June 30, 2011, the University had outstanding bond indebtedness in the amount of \$10,400,000 of which \$690,000 is due within the next year, capital leases payable of \$21,195,967 of which \$442,328 is due within the next year, and notes payable of \$104,529 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 6,944 for the fiscal year ending June 30, 2011. Total headcount increased by 283 students or 4.25% from fiscal year 2010.

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE TOTAL FALL ENROLLMENT

<u>FISCAL YEAR</u>	<u>FULL TIME EQUIVALENT</u>	<u>HEAD COUNT</u>
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
2011	6,055	6,944

Major Campus Construction Projects

Cypress Hall Dormitory: On June 1, 2010, The UNCP Student Housing Foundation LLC entered into an agreement with the University to construct a new 476 bed residence hall on campus. The Foundation financed the project by issuing series 2010A and 2010B limited obligation bonds. On July 28, 2011 the project was completed and the Foundation and University executed a capital lease whereby the University would lease the project until 2042.

Allied Health Building: The University is expected to complete a new 87,000 square foot, three floor, Allied Health building in fiscal year 2012. It is the largest capital project in the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

history of the University. The \$29,000,000 facility will house the Nursing program, Biology labs, Social Work, a Health Professions component and a food service area.

Student Health Services Comprehensive Moderation and Addition: A comprehensive renovation of the existing Student Health Building is expected to begin in fiscal year 2012. An additional 10,000 square feet of office space will be added to house mental health, testing, and counseling. The estimated construction cost of \$3,950,000 will be paid by assessing an annual fee of \$50 per student.

Economic Factors and Future Operations

In an effort to offset budget cuts and reductions, significant resources will be devoted to matters related to spending, savings, and operational efficiencies. For fiscal year 2012 the State Legislature reduced the University of North Carolina System budget by \$413,987,494 or 15.60%. The University of North Carolina at Pembroke's share of the reduction was \$9,118,731 or 15.50%. As a result the University's State appropriation will be \$49,850,497 for fiscal year 2012 compared to a final allotment of \$49,801,874 for the previous year. Fiscal year 2012 appropriations may increase slightly based upon final enrollment growth calculations. These numbers reflect a very modest increase from the previous year and probably a decrease in real purchasing power when increasing costs are factored in. In addition, the University does not expect federal recovery funds for fiscal year 2012 after receiving \$3,089,245 in the previous year. Combined, State appropriations and federal recovery funds will result in a net reduction of \$3,040,622 or 5.75% from the previous year. Finally, student enrollment for the Fall 2012 semester did not meet expectations based on projected estimates.

In order to minimize the damage to operations resulting from budget reductions and lower than expected student enrollment, the University increased tuition by \$390 for all students. The \$390 reflects an increase of 16.10% for undergraduate residents, 3.35% for undergraduate nonresidents, 15.46% for graduate residents and 3.29% for graduate non-residents. University management and staff have worked together reviewing, analyzing, debating, and implementing measures for the purpose of mitigating the potential damage resulting from revenue reductions. Some of the measures include eliminating programs, consolidating programs, shifting costs to non-state funding, eliminating vacant positions, reducing travel expenses, reviewing and updating contracts for efficiencies and savings, and discussing initiatives to find new sources of revenues from grants, fee increases and business enterprises.

Financially, the immediate future appears bleak and dismal, but we remain optimistic that the economy will improve in future years. With an improved economy we are confident that the once generous levels of funding will return along with increased enrollment.

The University's professionally managed endowment increased from \$9,256,441 in fiscal year 2010 to \$11,962,050 in fiscal year 2011 for an increase of \$ 2,705,609 or 29.23%. 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)

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
TABLE 1 - SUMMARY OF CONDENSED FINANCIAL STATEMENTS TOTALS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

	FY 2011	FY 2010 (as restated)	INCREASE/ DECREASE	PERCENT CHANGE
STATEMENTS OF NET ASSETS				
Current Assets	\$ 22,965,405	\$ 22,417,867	\$ 547,538	2.44%
Capital Assets, Net	126,866,116	119,150,906	7,715,210	6.48%
Other Noncurrent Assets	13,733,862	13,013,688	720,174	5.53%
TOTAL ASSETS	163,565,383	154,582,461	8,982,922	5.81%
Current Liabilities	5,903,455	4,141,049	1,762,406	42.56%
Noncurrent Liabilities	35,217,351	37,493,886	(2,276,535)	-6.07%
TOTAL LIABILITIES	41,120,806	41,634,935	(514,129)	-1.23%
Invested in Capital Assets, Net of Related Debt Restricted	95,270,149	86,460,966	8,809,183	10.19%
Expendable	3,265,551	3,907,187	(641,636)	-16.42%
Nonexpendable	10,019,880	9,335,580	684,300	7.33%
Unrestricted	13,888,997	13,243,793	645,204	4.87%
TOTAL NET ASSETS	\$ 122,444,577	\$ 112,947,526	\$ 9,497,051	8.41%
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Student Tuition and Fees, Net	\$ 17,649,088	\$ 17,571,199	\$ 77,889	0.44%
Grants and Contracts	3,318,409	3,199,264	119,145	3.72%
Sales and Services, Net	13,492,249	12,666,600	825,649	6.52%
Other Operating Revenues	549,489	483,946	65,543	13.54%
TOTAL OPERATING REVENUES	35,009,235	33,921,009	1,088,226	3.21%
Salaries and Benefits	62,916,481	60,612,707	2,303,774	3.80%
Supplies and Materials	11,644,596	10,596,886	1,047,710	9.89%
Services	18,498,061	17,236,039	1,262,022	7.32%
Scholarships and Fellowships	13,187,179	12,768,812	418,367	3.28%
Utilities	3,909,556	3,928,914	(19,358)	-0.49%
Depreciation	3,302,776	5,653,947	(2,351,171)	-41.58%
TOTAL OPERATING EXPENSES	113,458,649	110,797,305	2,661,344	2.40%
OPERATING LOSS	(78,449,414)	(76,876,296)	(1,573,118)	2.05%
State Appropriations	49,801,874	53,580,406	(3,778,532)	-7.05%
State Aid - Federal Recovery Funds	3,089,245	2,972,183	117,062	3.94%
Noncapital Grants and Gifts	24,128,747	23,887,693	241,054	1.01%
Other Nonoperating Revenues (Expenses)	854,547	(2,259,470)	3,114,017	-137.82%
NET NONOPERATING REVENUES	77,874,413	78,180,812	(306,399)	-0.39%
Capital Grants	9,364,181	3,330,829	6,033,352	181.14%
Refund of Prior Years Capital Appropriations	(245)	(96,686)	96,441	-99.75%
Additions to Permanent Endowments	708,116	660,489	47,627	7.21%
INCREASE IN NET ASSETS	9,497,051	5,199,148	4,297,903	82.67%
NET ASSETS - BEGINNING OF YEAR	112,947,526	107,495,047	5,452,479	5.07%
NET ASSETS RESTATED		253,331	(253,331)	
NET ASSETS - END OF YEAR	\$ 122,444,577	\$ 112,947,526	\$ 9,497,051	8.41%

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2011

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 15,359,884
Restricted Cash and Cash Equivalents	4,893,430
Receivables, Net (Note 4)	1,016,157
Inventories	1,532,985
Notes Receivable (Note 4)	162,949
	<hr/>
Total Current Assets	22,965,405
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	969,466
Receivables, Net (Note 4)	39,182
Endowment Investments	11,962,050
Other Investments	15,267
Notes Receivable, Net (Note 4)	747,897
Capital Assets - Nondepreciable (Note 5)	16,071,123
Capital Assets - Depreciable, Net (Note 5)	110,794,993
	<hr/>
Total Noncurrent Assets	140,599,978
	<hr/>
Total Assets	163,565,383
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,116,182
Due to Primary Government	7,660
Unearned Revenue	806,018
Interest Payable	428,348
Long-Term Liabilities - Current Portion (Note 8)	1,545,247
	<hr/>
Total Current Liabilities	5,903,455
	<hr/>

Noncurrent Liabilities:

Deposits Payable	257,257
Funds Held for Others	774,576
U. S. Government Grants Refundable	1,047,778
Long-Term Liabilities (Note 8)	33,137,740
	<hr/>
Total Noncurrent Liabilities	35,217,351
	<hr/>
Total Liabilities	41,120,806
	<hr/>

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2011

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	95,270,149
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,923,957
Endowed Professorships	5,856,698
Departmental Uses	149,293
Loans	89,932
Expendable:	
Scholarships and Fellowships	924,373
Endowed Professorships	1,140,550
Departmental Uses	1,200,628
Unrestricted	<u>13,888,997</u>
Total Net Assets	<u><u>\$ 122,444,577</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, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 17,649,088
Federal Grants and Contracts	2,796,553
State and Local Grants and Contracts	280,179
Nongovernmental Grants and Contracts	241,677
Sales and Services, Net (Note 10)	13,492,249
Interest Earnings on Loans	152,229
Other Operating Revenues	397,260
	<hr/>
Total Operating Revenues	35,009,235
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	62,916,481
Supplies and Materials	11,644,596
Services	18,498,061
Scholarships and Fellowships	13,187,179
Utilities	3,909,556
Depreciation	3,302,776
	<hr/>
Total Operating Expenses	113,458,649
	<hr/>
Operating Loss	(78,449,414)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	49,801,874
State Aid - Federal Recovery Funds	3,089,245
Noncapital Grants - Student Financial Aid	23,531,145
Other Noncapital Grants	218,475
Noncapital Gifts	379,127
Investment Gain	2,274,592
Interest and Fees on Debt	(1,405,512)
Other Nonoperating Expenses	(14,533)
	<hr/>
Net Nonoperating Revenues	77,874,413
	<hr/>
Loss Before Other Revenues and Expenses	(575,001)
	<hr/>
Refund of Prior Years Capital Appropriations	(245)
Capital Grants	9,364,181
Additions to Endowments	708,116
	<hr/>
Increase in Net Assets	9,497,051

NET ASSETS

Net Assets - July 1, 2010, as Restated (Note 16)	112,947,526
	<hr/>
Net Assets - June 30, 2011	\$ 122,444,577
	<hr/> <hr/>

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, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 35,943,599
Payments to Employees and Fringe Benefits	(62,842,728)
Payments to Vendors and Suppliers	(34,033,490)
Payments for Scholarships and Fellowships	(13,187,179)
Loans Issued	(7,941)
Collection of Loans	308,980
Interest Earned on Loans	152,229
Other Receipts	397,260
	<hr/>
Net Cash Used by Operating Activities	(73,269,270)
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	49,801,874
State Aid - Federal Recovery Funds	3,089,245
Noncapital Grants - Student Financial Aid	23,531,145
Other Noncapital Grants	46,264
Noncapital Gifts	379,127
Additions to Endowments	708,116
William D. Ford Direct Lending Receipts	29,043,012
William D. Ford Direct Lending Disbursements	(29,869,732)
Other Receipts	546,637
	<hr/>
Net Cash Provided by Noncapital Financing Activities	77,275,688
	<hr/>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Refund of Prior Years Capital Appropriations	(245)
Capital Grants	9,391,702
Proceeds from Sale of Capital Assets	3,121
Acquisition and Construction of Capital Assets	(8,757,546)
Principal Paid on Capital Debt and Leases	(1,093,972)
Interest and Fees Paid on Capital Debt and Leases	(1,410,325)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(1,867,265)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	9,872,042
Investment Income	79,301
Purchase of Investments and Related Fees	(11,056,573)
	<hr/>
Net Cash Used by Investing Activities	(1,105,230)
	<hr/>
Net Increase in Cash and Cash Equivalents	1,033,923
Cash and Cash Equivalents - July 1, 2010 (as Restated)	20,188,857
	<hr/>
Cash and Cash Equivalents - June 30, 2011	\$ 21,222,780
	<hr/> <hr/>

The University of North Carolina at Pembroke
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$	(78,449,414)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		3,302,776
Allowances and Write-Offs		280,575
Changes in Assets and Liabilities:		
Receivables		1,310,217
Inventories		711,592
Notes Receivable		135,222
Accounts Payable and Accrued Liabilities		(453,841)
Unearned Revenue		(41,289)
Compensated Absences		(81,437)
Deposits Payable		16,329
		<hr/>
Net Cash Used by Operating Activities	\$	<u>(73,269,270)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	15,359,884
Restricted Cash and Cash Equivalents		4,893,430
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		969,466
		<hr/>
Total Cash and Cash Equivalents - June 30, 2011	\$	<u>21,222,780</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	\$	19,667
Change in Fair Value of Investments		2,032,605

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, 2011

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	\$ 1,265,615	\$ 91,183	\$ 1,175,232
Pooled Investments Held by Fiscal Agent	3,232,363		
Cash Surrender Value of Life Insurance	49,367		
Security Deposits		37,708	
Assets Held by Trustees		1,226,444	6,208,224
Capital Lease Receivable			21,195,967
Accounts Receivable		53,392	
Unconditional Promises to Give, Net	240,985		
Prepaid Expenses		23,409	
Deferred Charges		400,934	
Construction in Progress			18,265,235
Property and Equipment, Net	4,021,252	6,786,566	
Total Assets	8,809,582	8,619,636	46,844,658
LIABILITIES			
Accounts Payable and Accrued Expenses	3,160	118,443	847,590
Retainage Payable			805,032
Unearned Revenue		47,125	
Interest Payable		35,097	709,182
Tenant Security Deposits		37,393	
Interest Rate Swap Fair Value Liability		1,676,468	
Notes Payable	1,153,040		
Bonds Payable		10,305,000	42,177,956
Total Liabilities	1,156,200	12,219,526	44,539,760
NET ASSETS			
Unrestricted	4,165,738	(3,599,890)	2,304,898
Temporarily Restricted	785,174		
Permanently Restricted	2,702,470		
Total Net Assets	\$ 7,653,382	\$ (3,599,890)	\$ 2,304,898

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, 2011***

Exhibit B-2

	University of North Carolina at Pembroke Foundation, Inc. (as Restated)	The UNCP University Foundation LLC	The UNCP Student Housing Foundation LLC
CHANGES IN UNRESTRICTED NET ASSETS			
Revenues and Gains:			
Contributions	\$ 832,262	\$ 0	\$ 0
Income Earned on Investments	335,659		
Unrealized Gain on Investments	225,730		
Change in Fair Value of Interest Rate Swap		313,510	
Rental and Interest Income		1,593,512	1,175,535
Miscellaneous Income		46,250	
Total Unrestricted Revenues and Gains	<u>1,393,651</u>	<u>1,953,272</u>	<u>1,175,535</u>
Expenses:			
Program Service	128,412		
Development and Fundraising	88,101		
Management and General	185,384		
Salaries and Employee Benefits		142,811	
Repairs and Maintenance		109,114	
Utilities		325,061	
Property Management Fee		84,372	
Property Insurance		26,633	
Miscellaneous Operating Expenses		128,914	
Interest on Debt		417,027	951,732
Other Financial Expense		152,984	
Depreciation		302,501	
Amortization		19,881	
Professional Fees			3,700
Fiscal Agent Fees			8,205
Other			1,025
Total Expenses	<u>401,897</u>	<u>1,709,298</u>	<u>964,662</u>
Increase in Unrestricted Net Assets	<u>991,754</u>	<u>243,974</u>	<u>210,873</u>
Net Assets at Beginning of Year	<u>6,661,628</u>	<u>(3,843,864)</u>	<u>2,094,025</u>
Net Assets at End of Year	<u>\$ 7,653,382</u>	<u>\$ (3,599,890)</u>	<u>\$ 2,304,898</u>

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

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THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 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 ten elected public directors, four non-public directors who serve with a vote, 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 restricted resources held by the Foundation can only be used by, or for the benefit of the University, the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the 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, construction, and operating a 336-bed student housing rental project. The property location is in Pembroke, North Carolina and is currently known the University Courtyard Apartments. The major activities of the Courtyard are governed by an operating agreement. The University of North Carolina at Pembroke Foundation 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 difference in their reporting model, as described below.

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

During the year ended June 30, 2011, the University of North Carolina at Pembroke Foundation, Inc. distributed \$128,412 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 the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 generally are reported at fair value, as determined by quoted market. 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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. 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, and 2 to 30 years for equipment.

The Native American Resource Museum and portrait collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 premium/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:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$20,909,461 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 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2011 was \$18,188. The carrying amount of the University's deposits not with the State Treasurer, including certificates of deposit, was \$295,131 and the bank balance was \$277,718. 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, 2011, 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments are subject to the following risks.

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the 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, 2011, for the Long-Term Investment Pool.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 1,038,203	\$ 20,047	\$ 819,123	\$ 199,033	\$ 0
U.S. Agencies	826,710	140,154	597,249		89,307
Debt Mutual Funds	361,121		361,121		
Money Market Mutual Funds	288,856	288,856			
Domestic Corporate Bonds	1,036,593		720,345	316,248	
		<u>\$ 449,057</u>	<u>\$ 2,497,838</u>	<u>\$ 515,281</u>	<u>\$ 89,307</u>
Other Securities					
Investments in Real Estate	602,802				
Hedge Funds	1,093,887				
Domestic Stocks	7,855,891				
Foreign Stocks	1,661,415				
Other	428,935				
Total Long-Term Investment Pool	<u>\$ 15,194,413</u>				

At June 30, 2011, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	\$ 826,710	\$ 826,710	\$ 0	\$ 0	\$ 0	\$ 0
Debt Mutual Funds	361,121					361,121
Money Market Mutual Funds	288,856	288,856				
Domestic Corporate Bonds	1,036,593		195,371	525,006	316,216	

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, 2011, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)
		More than 10
Annuity Contracts	<u>\$ 15,267</u>	<u>\$ 15,267</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2011, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	Unrated
Annuity Contracts	\$ 15,267	\$ 15,267

Total Investments - The following table presents the fair value of the total investments at June 30, 2011:

	Fair Value
Investment Type	
Debt Securities	
U.S. Treasuries	\$ 1,038,203
U.S. Agencies	826,710
Annuity Contracts	15,267
Debt Mutual Funds	361,121
Money Market Mutual Funds	288,856
Domestic Corporate Bonds	1,036,593
Other Securities	
Domestic Stocks	7,855,891
Foreign Stocks	1,661,415
Investments in Real Estate	602,802
Hedge Funds	1,093,887
Other	428,935
Total Investments	\$ 15,209,680

Total investments include \$3,232,363 held in the Endowment Fund for the University of North Carolina at Pembroke Foundation Inc., which is discretely presented in the accompanying financial statements.

Component Units - Investments of the University's 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 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 by type:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University of North Carolina at Pembroke Foundation, Inc. - The composition of investments at June 30, 2011 is as follows:

	Fair Value
Money Market Funds	\$ 133,641
Stocks	2,047,902
Corporate Fixed Income	217,959
Government Securities	399,289
Mutual Funds	109,616
Hedge Funds	232,707
Investment in Real Estate	91,249
	\$ 3,232,363

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2011:

	Unrestricted	Restricted	Total
Investment Income	\$ 15,767	\$ 319,892	\$ 335,659
Unrealized Gains	1,152	224,578	225,730
Total Investment Return	\$ 16,919	\$ 544,470	\$ 561,389

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, 2011 funds held by the Trustee consist of:

	June 30, 2011
Debt Service Fund	\$ 901,400
Trustee Bond Fund Reimbursement	256,002
Other Trustee Funds	69,042
Total	\$ 1,226,444

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The UNCP Student Housing Foundation LLC - As a requirement of the 2004 and 2006 Bond Indentures, the Foundation is required to create and maintain reserve funds as security for the certificates. The funds in the 2004 and 2006 Reserve Fund at June 30, 2011 are \$1,342,315.

As a requirement of the 2010 series Bond Indenture, the Foundation is required to create and maintain a Construction Fund. The monies in the Construction Fund shall be held in trust and applied to the payment of the cost of acquisition and construction of a student housing facility. The funds in the Construction Fund at June 30, 2011 are \$3,206,770. Also under the 2010 series Bond Indenture, the Foundation is required to create and maintain a Reserve Fund, from which the principal and interest on the certificates is to be paid. The funds in the Reserve Fund at June 30, 2011 are \$1,659,139.

The assets held by the trustee were comprised as follows at June 30, 2011:

	June 30, 2011
Commercial Paper	\$ 3,392,389
Money Market Funds	1,342,315
Government Bonds	1,473,520
Total	\$ 6,208,224

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2011, is as follows:

Cash on Hand	\$ 18,188
Amount of Deposits with Private Financial Institutions	295,131
Deposits in the Short-Term Investment Fund	20,909,461
Long-Term Investment Pool	11,962,050
Non-Pooled Investments	15,267
Total Deposits and Investments	\$ 33,200,097
Deposits	
Current:	
Cash and Cash Equivalents	\$ 15,359,884
Restricted Cash and Cash Equivalents	4,893,430
Noncurrent:	
Restricted Cash and Cash Equivalents	969,466
Total Deposits	\$ 21,222,780
Investments	
Noncurrent:	
Endowment Investments	\$ 11,962,050
Other Investments	15,267
Total Investments	\$ 11,977,317

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, endowment net assets of \$2,083,744 were available to be spent, of which \$2,053,315 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,340,638	\$ 890,534	\$ 450,104
Accounts	50,613		50,613
Intergovernmental	474,096		474,096
Pledges	30,752	9,225	21,527
Other	19,817		19,817
Total Current Receivables	\$ 1,915,916	\$ 899,759	\$ 1,016,157
Noncurrent Receivables:			
Pledges	\$ 57,040	\$ 17,858	\$ 39,182
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 106,631	\$ 0	\$ 106,631
Institutional Student Loan Programs	56,318		56,318
Total Notes Receivable - Current	\$ 162,949	\$ 0	\$ 162,949
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,073,948	\$ 326,051	\$ 747,897

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 2,085,642	\$ 0	\$ 0	\$ 2,085,642
Art, Literature, and Artifacts	168,730			168,730
Construction in Progress	4,407,098	9,536,424	126,771	13,816,751
Total Capital Assets, Nondepreciable	6,661,470	9,536,424	126,771	16,071,123
Capital Assets, Depreciable:				
Buildings	124,270,894	126,771		124,397,665
Machinery and Equipment	11,463,986	1,504,350	127,821	12,840,515
General Infrastructure	18,413,131			18,413,131
Total Capital Assets, Depreciable	154,148,011	1,631,121	127,821	155,651,311
Less Accumulated Depreciation for:				
Buildings	29,435,417	2,450,634		31,886,051
Machinery and Equipment	6,580,853	537,984	105,033	7,013,804
General Infrastructure	5,642,305	314,158		5,956,463
Total Accumulated Depreciation	41,658,575	3,302,776	105,033	44,856,318
Total Capital Assets, Depreciable, Net	112,489,436	(1,671,655)	22,788	110,794,993
Capital Assets, Net	\$ 119,150,906	\$ 7,864,769	\$ 149,559	\$ 126,866,116

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 2,395,119
Accrued Payroll	261,039
Contract Retainage	333,999
Other	126,025
Total Accounts Payable and Accrued Liabilities	\$ 3,116,182

NOTE 7 - SHORT-TERM DEBT - LETTER OF CREDIT

Component Unit - UNCP University Foundation LLC - In connection with the long-term debt, the Foundation has a letter of credit in the amount of \$10,480,185 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 February 12, 2012. There has been no activity on this line of credit during the 2011 fiscal year.

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, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	\$ 11,070,000	\$ 0	\$ 670,000	\$ 10,400,000	\$ 690,000
Notes Payable	206,743		102,214	104,529	104,529
Capital Leases Payable	21,619,939		423,972	21,195,967	442,328
Compensated Absences	3,063,929	2,229,270	2,310,708	2,982,491	308,390
Total Long-Term Liabilities	\$ 35,960,611	\$ 2,229,270	\$ 3,506,894	\$ 34,682,987	\$ 1,545,247

Additional information regarding capital lease obligations is included in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011	Principal Outstanding June 30, 2011	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	\$ 1,485,000	\$ 1,645,000	(1)
Recreational Facilities	2006B	3.75%-5.00%	09/25/2021	816,940	200,000	616,940	
Dining System	2006B	3.75%-5.00%	09/25/2016	518,060	200,000	318,060	
University Center Expansion Supplement	2006B	3.75%-5.00%	09/25/2026	1,965,000	275,000	1,690,000	
Recreational Center Improvements	2002B	3.50%-5.00%	03/10/2012	605,000	530,000	75,000	
Surface Parking Lot	2002B	3.50%-5.00%	03/10/2012	285,000	250,000	35,000	
University Center Renovations	2003B	2.00%-4.75%	03/10/2028	3,100,000	711,765	2,388,235	
Auxillary Services Building	2003B	2.00%-4.75%	03/10/2028	1,550,000	355,882	1,194,118	
Recreational Facilities	2003B	2.00%-4.75%	03/10/2028	620,000	142,353	477,647	
Multipurpose Facility - Athletic Field House	2008A	3.00%-5.00%	10/01/2033	2,055,000	95,000	1,960,000	
Total Revenue Bonds Payable				<u>\$ 14,645,000</u>	<u>\$ 4,245,000</u>	<u>\$ 10,400,000</u>	

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	\$ 1,965,456	\$ 714,010	\$ 165,000	\$ 81,722	35%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
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	680,000	348,634		
2017-2021	2,970,000	1,327,857		
2022-2026	2,445,000	754,160		
2027-2031	1,335,000	216,119		
2032-2034	390,000	29,750		
Total Requirements	<u>\$ 10,400,000</u>	<u>\$ 4,346,056</u>	<u>\$ 104,529</u>	<u>\$ 4,735</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, the outstanding balance of prior year defeased bonds was \$965,000.

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, 2011	Principal Outstanding June 30, 2011
Noncapitalized Banner Software and Equipment	Branch Banking & Trust	4.53%	01/05/2012	\$ 500,000	\$ 395,471	\$ 104,529

Component Units

University of North Carolina at Pembroke Foundation, Inc. - In November of 2007, the University Foundation entered into a loan agreement with Bank of America to construct a field house for the University football program. Interest on the note is an adjustable rate based on a 1.25% spread over LIBOR. The interest rate at June 30, 2011 was 2.98%. The term of the loan is 8 years and the loan will mature in July 2015. The balance of the note payable at June 30, 2011 was \$1,153,040.

Principal amounts payable on the outstanding note during the next five years and thereafter are as follows:

Fiscal Year	Principal
2012	\$ 269,877
2013	278,038
2014	286,446
2015	295,109
2016	23,570
Total	1,153,040
Less Current Maturities	(269,877)
Net Long-Term Portion	\$ 883,163

The UNCP University Foundation LLC - Long-term debt consists of \$10,305,000 at June 30, 2011. Tax-exempt series 2001A term bonds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Valued separately, the interest rate swap agreement represents a liability as of June 30, 2011, in the amount of \$1,676,468. 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 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.

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, 2011, \$35,097 is accrued.

Maturities of long-term debt at June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2012	\$ 255,000
2013	270,000
2014	285,000
2015	305,000
2016	320,000
Thereafter	8,870,000
Total	10,305,000
Less Current Maturities	(255,000)
Net Long-Term Portion	<u>\$ 10,050,000</u>

The UNCP Student Housing Foundation LLC

Bonds Payable-Village Apartments, Oak Hall, and Cypress Hall

In January 2004, the Foundation issued Certificate of Participation bonds to 1) refinance the cost of the construction, acquisition and equipping of two existing student housing facilities, 2) pay capitalized interest with respect to the portion of the 2004 Certificates allocable to the expansion project, 3) fund debt services, and 4) to pay expenses related to the 2004 Certificates. The bonds are payable in annual installments that escalate over the life of the bonds with a variable interest rate that ranges between 2% and 5%. The bonds are scheduled to mature in January 2034. The balance on the bonds payable at June 30, 2011 was \$8,176,667.

In April 2006, the Foundation issued Certificate of Participation bonds to finance 1) the cost of the construction, acquisition and equipping of a student housing facility, 2) the payment of capitalized interest with respect to the 2006 Certificates during construction, 3) the payment of the premium for the financial guaranty insurance policy, 4) the payment of premiums on 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 bonds are payable in semi-annual installments that escalate over the life of the bonds with a variable interest rate that ranges between 4% and 5%. The bonds are scheduled to mature in April 2037. The balance on the bonds payable at June 30, 2011 was \$13,015,000.

In October 2010, the Foundation issued Limited Obligation bonds which gives the Foundation rights to receive certain revenues under a lease agreement dated January 27, 2004 and amended on April 20, 2006 between The UNCP Student Housing Foundation LLC and the State of North Carolina. The bonds are payable in annual installments that escalate over the life of the bonds with a variable interest rate that ranges between 2.5% and 6.23%. The bonds are scheduled to mature in March 2042. The balance of the 2010 bonds payable at June 30, 2011 was \$20,890,000. Premiums paid on the bonds at June 30, 2011 was \$96,289.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Maturities of bonds payable and estimated interest payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 883,333	\$ 2,053,949
2013	903,333	2,106,082
2014	945,000	2,034,199
2015	975,000	2,010,962
2016	1,010,000	2,018,162
Thereafter	<u>37,365,001</u>	<u>29,376,056</u>
Total	42,081,667	<u>\$ 39,599,410</u>
Add Bond Premium Discount	<u>96,289</u>	
Total Bonds Payable	42,177,956	
Less Current Maturities	<u>(883,333)</u>	
Net Long-Term Portion	<u>\$ 41,294,623</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, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 1,345,635
2013	1,345,635
2014	1,345,635
2015	1,345,635
2016	1,345,635
2017-2021	6,728,173
2022-2026	6,728,173
2027-2031	6,728,173
2032-2036	6,728,173
2037-2038	<u>2,018,452</u>
Total Minimum Lease Payments	35,659,319
Amount Representing Interest (4.28% Rate of Interest)	<u>14,463,352</u>
Present Value of Future Lease Payments	<u>\$ 21,195,967</u>

Buildings acquired under capital lease amounted to \$23,310,000 at June 30, 2011. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 104,861
2013	92,492
2014	7,726
Total Minimum Lease Payments	<u>\$ 205,079</u>

Rental expense for all operating leases during the year was \$146,608.

NOTE 10 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 27,685,230	\$ 62,152	\$ 9,049,060	\$ 924,930	\$ 17,649,088
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 6,626,528	\$ 82,195	\$ 2,230,331	\$ 0	\$ 4,314,002
Dining	4,391,028	92,872	1,442,515		2,855,641
Student Union Services	41,559				41,559
Health, Physical Education, and Recreation Services	1,720,614	6,667	798,919		915,028
Bookstore	5,183,299	177,569	977,497		4,028,233
Parking	325,168			236,665	88,503
Athletic	265,488	14,942			250,546
Central Stores	17,498	12,191			5,307
Print Shop	349,931	340,437			9,494
Motor Pool	419,428	250,345			169,083
Lyceum	221,728	1,097			220,631
Vending	84,232				84,232
Laundry	18,148				18,148
Other	40,758	12,015			28,743
Sales and Services of Education and Related Activities	606,805	143,706			463,099
Total Sales and Services	<u>\$ 20,312,212</u>	<u>\$ 1,134,036</u>	<u>\$ 5,449,262</u>	<u>\$ 236,665</u>	<u>\$ 13,492,249</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 33,445,407	\$ 1,274,017	\$ 1,747,370	\$ 500	\$ 3,663	\$ 0	\$ 36,470,957
Research	432,611	114,703	52,528				599,842
Public Service	1,403,267	74,854	570,521	35,055			2,083,697
Academic Support	7,212,121	2,270,335	877,088	3,192	2,040		10,364,776
Student Services	3,369,048	274,220	1,378,064		120		5,021,452
Institutional Support	7,026,314	277,482	2,652,990		720		9,957,506
Operations and Maintenance of Plant	5,385,328	1,968,630	1,700,287		2,264,133		11,318,378
Student Financial Aid	69,158		73,067	13,148,432			13,290,657
Auxiliary Enterprises	4,573,227	5,390,355	9,446,146		1,638,880		21,048,608
Depreciation						3,302,776	3,302,776
Total Operating Expenses	<u>\$ 62,916,481</u>	<u>\$ 11,644,596</u>	<u>\$ 18,498,061</u>	<u>\$ 13,187,179</u>	<u>\$ 3,909,556</u>	<u>\$ 3,302,776</u>	<u>\$ 113,458,649</u>

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$49,259,014, of which \$23,888,021 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,177,679 and \$1,433,281, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$1,177,679, \$822,852, and \$785,148, respectively.

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

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2011, 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 \$49,259,014, of which \$20,549,519 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,405,587 and \$1,232,971, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$271,494 for the year ended June 30, 2011.

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, 2011, were \$27,028. The voluntary contributions by employees amounted to \$225,091 for the year ended June 30, 2011.

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 \$694,243 for the year ended June 30, 2011.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 4.9% 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, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$2,177,439, \$1,932,874, and \$1,813,311, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$231,075, \$223,354, and \$229,981, 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

The University retained the following risks as of June 30, 2011:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 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 \$10,885,926 and on other purchases were \$733,176 at June 30, 2011.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2010 Net Assets as Previously Reported	\$ 112,694,195
Restatements:	
Addition of Reserve Cash with 1998 Revenue Bond	<u>253,331</u>
July 1, 2010 Net Assets as Restated	<u>\$ 112,947,526</u>

NOTE 17 - SUBSEQUENT EVENTS

- A. Use Agreement with UNCP Student Housing Foundation LLC** - On July 28, 2011, The UNCP Student Housing Foundation LLC (Housing LLC) completed construction and opened a new 476 bed residence hall. Bonds issued on October 7, 2010, to finance construction were 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.

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 first rental payment was transferred to the Foundation on August 19, 2011.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
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	<u>19,305,000</u>	<u>20,178,721</u>
Total	20,890,000	<u>\$ 25,011,793</u>
Less Current Maturities	<u>(380,000)</u>	
Net Long-Term Portion	<u>\$ 20,510,000</u>	

- B. Siemens Technologies Energy Performance Contract** - On July 15, 2011, the University entered into a \$4,500,000 guaranteed energy conservation performance contract with Siemens Public Inc. The contract consists of a framework of 26 energy conservation measures primarily on four campus buildings. Major utility savings expected by the contract are from domestic water, lighting and controls, HVAC mechanical and control systems, and natural gas equipment. Specific improvement measures include the installation of efficient lighting, lighting occupancy sensors, efficient water fixtures, DDC energy management controls, building envelope improvements, one boiler replacement, AHU replacements and one new air conditioning system.

Siemens Public Inc. is financing the \$4,500,000 cost of the project. The utility savings guaranteed by Siemens Public, Inc. will be used to repay the \$4,500,000 cost plus interest expense of \$2,111,603 over the next 18 years.



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, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 19, 2011. Our report includes a reference to 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. 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.

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.

**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)**

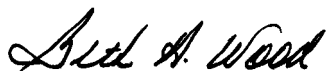
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency.

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*.

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

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



Beth A. Wood, CPA
State Auditor

December 19, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control over financial reporting.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the University contained misstatements that were corrected as a result of our audit. These misstatements indicate that the University's internal control over financial reporting was not effective, and without our corrections, the financial statements could have been misleading to readers. Misstatements noted during our audit included:

- a. The University understated nondepreciable capital assets and accounts payable and accrued liabilities by \$1,948,952. Construction invoices for services performed in May and June 2011 were not recorded. These misstatements resulted from an insufficient review of invoices received after fiscal year end.
- b. The University understated cash and cash equivalents by \$307,541, overstated current restricted cash and cash equivalents by \$885,532, and understated noncurrent cash and cash equivalents by \$577,991. Errors noted in the University's presentation of cash included the failure to properly classify cash for interfund borrowing and several clerical errors. The University's review of the financial statements and supporting documentation failed to identify and correct the errors.
- c. The University failed to record \$1,305,609 in compensated absences. This error occurred when total amounts for compensated absences were not reconciled to employee leave records. Because compensated absences are expensed when earned, there was also a \$1,305,609 understatement of salaries and benefits expense.. In addition, the University misclassified compensated absences between current and noncurrent portions of the liability. The current portion of long-term liabilities was overstated by \$1,089,602 and the long-term liabilities portion was understated by \$2,395,211.
- d. The errors noted in a through c above caused misstatements in net assets in the following amounts: unrestricted net assets was overstated by \$1,305,609, expendable net assets - restricted for capital projects was overstated by \$1,870,270 and invested in capital assets, net of related debt was understated by \$1,948,452.

Recommendation: The University should place greater emphasis on the year-end financial reporting process and reviews over that process. The University should strengthen internal controls to ensure the completeness and accuracy of the financial statements.

University's Response: The University of North Carolina at Pembroke agrees with the finding and will implement corrective action procedures. Updated procedures will ensure that all invoices are reviewed and recorded in the correct accounting period. The procedures will

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

extend the time for which year-end accruals are analyzed and coded. In addition, University departments will be required to submit information to Finance for outstanding expenses incurred June 30 or earlier. Revised processes will also include additional oversight and reviews related to the classification of cash.

Recently the University implemented the Webfocus reporting system which will enable the University to more efficiently generate reliable financial data. This new reporting system will be used to produce the long-term liability report for compensated absences.

ORDERING INFORMATION

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

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