



# STATE OF NORTH CAROLINA

**THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE**

**PEMBROKE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**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, 2012**

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. 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, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of The University of North Carolina at Pembroke, a constituent institution of the 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, 2012, 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 University 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 University Foundation LLC, and The UNCP Student Housing Foundation LLC were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

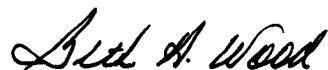
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Pembroke and its discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012 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.

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



Beth A. Wood, CPA  
State Auditor

December 13, 2012

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

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### **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 2012 and 2011, 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)**

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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 one apartment building and two residence halls to the University for use as student housing.

### **Comparison of Two-Year Data for 2012 to 2011**

Comparative financial data of 2012 to 2011 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 \$38,973,527.06 or 23.83% from the prior year. Current assets increased by \$3,568,974.14 or 15.54% and other noncurrent assets increased by \$3,411,267.56 or 24.84%. Capital assets, net increased by \$31,993,285.36 or 25.22% from the previous year. The increase in current and noncurrent assets includes the remaining cash balance of \$2,960,371.09 from a Siemens Public Inc. note which represents available cash for work not yet completed. It also includes a \$1,632,008.39, or 202.48%, increase in the cash carry forward from the previous year and a \$1,606,042.76 receivable due from The UNCP Student Housing Foundation LLC representing reserve funds due to the University. The increase in capital assets, net is attributed to the completion of the new Allied Health building and Cypress Hall.

Total liabilities increased by \$23,940,892.99 or 58.22% from the previous year. Current liabilities increased by \$1,049,205.00 or 17.77% and noncurrent liabilities increased by \$22,891,687.99 or 65.00%. The increase in current liabilities reflects an increase in accounts



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

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payable and contract retainage for the Allied Health building and an increase in unearned revenue. Unearned revenue increased due to financial aid disbursements being made during the current fiscal year to pay for student tuition and fees charged for semesters in the 2013 fiscal year. Current liabilities also increased due to an increase in interest payable for the new Siemens Public Inc. note payable and the capital lease payable by the University to the UNCP Student Housing Foundation LLC for Cypress Hall. The increase in noncurrent liabilities is also related to the note payable and the capital lease.

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 include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. Unrestricted net assets increased \$3,544,702.56 or 25.52% primarily due to an increase in state appropriations and tuition and fees from the previous year.

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 \$785,358.58 which represents a \$77,242.58 or a 10.91% increase from fiscal year 2011. 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 \$3,644,637.49 or 11.10% over the previous year. Student tuition and fees, net increased by \$2,640,868.73 or 14.96% reflecting a 16.10% tuition increase for undergraduate residents and a 15.50% tuition increase for graduate residents. Other operating revenues increased \$691,404.69 or 125.83% due to an increase in fees, licenses, fines (primarily parking) and rental income (rental of books - a new program in the bookstore).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE OPERATING REVENUES BY CLASS

	JUNE 30, 2012	JUNE 30, 2011 (as Restated)
Student Tuition and Fees (Net)	\$ 20,289,956.73	\$ 17,649,088.00
Federal Grants and Contracts	629,285.81	607,890.00
State and Local Grants and Contracts	398,845.78	280,179.00
Nongovernmental Grants and Contracts	309,038.04	241,677.00
Sales and Services (Net)	13,597,189.44	13,492,249.00
Other Operating Revenues	1,240,893.69	549,489.00
<b>Total Operating Revenues</b>	<b>\$ 36,465,209.49</b>	<b>\$ 32,820,572.00</b>

Total operating expenses decreased by \$3,885,198.11 or 3.42% from the previous year reflecting a continuing effort by the University to control and monitor expenses. Supplies and material expenses increased by \$754,702.82 or 6.48% reflecting the cost of new furniture in the Allied Health building. Scholarships and fellowships decreased by \$3,070,507.97 or 23.28% resulting from funding reductions in Pell Grants and the UNC Need Based State Grants. Depreciation expense increased \$916,062.87 or 27.74% as a result of recording depreciation for Cypress Hall, the Allied Health building, and capitalized machinery and equipment related to the Allied Health building.

### OPERATING EXPENSE BY FUNCTIONAL CLASSIFICATION

	JUNE 30, 2012	JUNE 30, 2011
Instruction	\$ 34,701,017.45	\$ 36,470,957.00
Research	576,990.86	599,842.00
Public Service	2,205,647.05	2,083,697.00
Academic Support	11,299,839.42	10,364,776.00
Student Services	5,786,140.20	5,021,452.00
Institutional Support	9,188,595.76	9,957,506.00
Operations & Maintenance of Plant	11,196,769.60	11,318,378.00
Student Financial Aid	10,093,417.40	13,290,657.00
Auxiliary Enterprises	20,306,194.28	21,048,608.00
Depreciation	4,218,838.87	3,302,776.00
<b>Total Operating Expenses</b>	<b>\$ 109,573,450.89</b>	<b>\$ 113,458,649.00</b>

### OPERATING EXPENSE BY CLASS

	JUNE 30, 2012	JUNE 30, 2011
Salaries and Benefits	\$ 62,114,702.20	\$ 62,916,481.00
Supplies and Materials	12,399,298.82	11,644,596.00
Services	17,053,991.96	18,498,061.00
Scholarships and Fellowships	10,116,671.03	13,187,179.00
Utilities	3,669,948.01	3,909,556.00
Depreciation	4,218,838.87	3,302,776.00
<b>Total Operating Expenses</b>	<b>\$ 109,573,450.89</b>	<b>\$ 113,458,649.00</b>

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

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The University shows a significant operating loss of \$73,108,241.40 for 2012 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, 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 \$53,912,856.12, an increase of \$4,110,982.12 or 8.25% for operations. The University also received \$14,607,646.02, an increase of \$5,243,465.02 or 55.99% in capital grants for capital projects. The large percentage increase in capital grants is a result of increased funds for the Allied Health building. In addition, a \$1,000,000.00 capital gift was received from Sodexo to be used for the dining hall renovation. The University received no State Aid from Federal Recovery Funds for fiscal year 2012.

Other nonoperating revenues (expenses) decreased by \$4,107,205.95 or 480.63% due to a decrease in investment income of \$2,220,431.16 or 97.62% and an increase in interest and fees on debt of \$1,793,495.01 which is mainly due to the capital lease between the University and The UNCP Student Housing Foundation LLC, for Cypress Hall.

### **Analysis of Net Asset Balances**

At June 30, 2012, the gross value of capital assets was \$207,728,251.08. Accumulated depreciation was \$48,868,849.72 and related plant asset debt was \$52,676,301.53. Invested in capital assets, net of related debt increased \$10,912,950.83 or 11.45% due primarily to the addition of Cypress Hall and the Allied Health building. These capital asset additions were partially offset by the addition of the capital lease payable for Cypress Hall and the Siemens Public Inc. notes payable.

Restricted expendable net assets totaled \$3,059,112.00 and restricted nonexpendable net assets totaled \$10,801,299.68 both representing amounts subject to externally imposed restrictions.

Unrestricted net assets totaled \$17,433,699.56 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 capitalized equipment in the amount of \$3,348,236.11 during the year.

University capital projects in the construction phase include the Student Health Building design, Dining Hall and Givens Performing Arts Center renovations, Siemens Public, Inc. energy efficiency projects, and a new road. During the year, expenditures for renovations of the Dining Hall were \$371,309.00, Student Health were \$97,281.35, and Givens Performing Arts Center were \$290,168.31. Capital expenditures for the new road were \$13,570.00 and Siemens Public Inc. energy efficiency projects were \$1,598,729.28. For detailed information about capital assets, see Note 5 of the Notes to the Financial Statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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At June 30, 2012, outstanding commitments on construction contracts were \$2,984,489.51. Retainage on outstanding construction contracts was \$606,517.68.

At June 30, 2012, the University had outstanding bond indebtedness in the amount of \$8,240,000.00 of which \$425,000.00 is due within the next year, capital leases payable of \$41,263,638.77 of which \$851,480.08 is due within the next year and notes payable of \$5,970,000.00 of which \$180,000.00 is due within the next year. Standard & Poor's Ratings Services has lowered its long-term rating on the University's series 2010A and 2010B limited-obligation bonds to 'BB' from 'BBB+'. For more detailed information about outstanding debt, see Note 8 and Note 9 of the Notes to the Financial Statements.

In response to the UNC Board of Governor's request, the General Assembly authorized a comprehensive renovation of the existing Student Health Building. With the approval of the UNC Board of Governors the project will be changed from a renovation to a new building with bonds to be issued and construction to begin in the current fiscal year. Estimated construction cost of \$3,950,000.00 will be paid through the assessment of an annual fee of \$50.00 per student that began in 2012 spring semester.

### Enrollment Activities

University enrollment was 6,251 for the fiscal year ending June 30, 2012. Total headcount decreased by 693 students or 9.98% from fiscal year 2011.

#### THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE TOTAL FALL ENROLLMENT

FISCAL YEAR	FULL TIME EQUIVALENT	HEAD COUNT
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
2012	5,480	6,251

### Economic Factors and Future Operations

The University's primary source of revenue from state appropriations continued to be a matter of concern in 2012. Our base appropriation was reduced by more than \$9,118,731.00 or 15.50%. During good economic conditions the University's actual appropriation will usually equal the base appropriation. However, over the last four years, due to budget reversions and cut backs attributed to the economic crisis, the University has rarely received its full base appropriation. Typically each new budget year begins with the prior year's base appropriation and is reduced by reversions resulting in actual appropriations. Actual appropriations have decreased by \$3,711,194.88 or 6.44% between 2008 and 2012. For fiscal year-end June 30, 2012 the \$9,118,731.00 reduction to the prior year's base appropriation permanently reduced our future

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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base appropriations. In other words, the \$9,118,731.00 was not included in our beginning base appropriation and will not be available for allotment going forward. In summary, the University has faced severe budget and financial challenges over the past four years related to the economic situation, but we have met the challenges with strong leadership and committed employees as we look forward to a better future.

The University's second major source of revenue from tuition is directly related to enrollment which has been the focus of attention and concern. Enrollment numbers for 2012 were down 9.98% from the previous year. Several factors have been identified as contributing to the reductions in both state funding and enrollment, but the primary factor is the continuing economic situation. We are optimistic that measures taken to increase enrollment will result in improved numbers. University officials have developed plans and implemented procedures to increase enrollment over the coming years. We are of the opinion that the plans will not only increase enrollment but enhance the academic standing of the University. Although enrollment is currently static, we expect tuition and fee revenue to increase in 2013 as we continue to phase in the tuition increase that began in 2012. Sales and service revenues from bookstore sales, housing, and food services are directly linked to student enrollment as such sales and service revenue for 2012 was up a very modest 0.78% over the previous year.

The University is dependent on state appropriations for general operations and capital funding to construct and maintain facilities. For fiscal year 2013, the base appropriation is \$54,244,297.00. Capital grants funding increased by \$5,243,465.02 or 55.99% in 2012 over the previous year. These numbers were higher than in previous years as the Allied Health building construction phase ended and the building was occupied. We are hopeful that similar projects will be approved in the future and that the once generous levels of funding for capital renovations and maintenance of capital facilities will be restored as the economy improves.

The University's professionally managed endowment increased from \$11,962,050.00 in fiscal year 2011 to \$12,419,702.27 in fiscal year 2012 for an increase of \$457,652.27 or 3.83%. 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 monitoring these investments to maximize returns.

As we look forward to 2013, there are indications of an improving economy. Signs of improvement were evident after the State Legislature approved a moderate increase in salaries for faculty and staff. Actual appropriations for 2012 increased by \$1,021,737.12 or 1.93% over the previous year, when the Office of State Budget and Management approved 100% of the University's management flexibility funds and a decrease in budget reversions and smaller budget cuts. University leaders along with budget and financial managers have worked diligently and persistently to offset budget cuts and revenue reductions with spending reductions, savings, and operational efficiencies. At the same time faculty and staff have worked tirelessly, steadily, and with resolve to overcome the temporary adversities. The University

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

continues to persevere with determination to find solutions to budget issues as the State works to restore the economy and improve its financial position.

**UNIVERSITY OF NORTH CAROLINA AT PEMBROKE**  
**TABLE 1 - SUMMARY OF CONDENSED FINANCIAL STATEMENTS TOTALS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

	FY 2012	FY 2011 (as restated)	INCREASE/ DECREASE	PERCENT CHANGE
<b>STATEMENTS OF NET ASSETS</b>				
Current Assets	\$ 26,534,379.14	\$ 22,965,405.00	\$ 3,568,974.14	15.54%
Capital Assets, Net	158,859,401.36	126,866,116.00	31,993,285.36	25.22%
Other Noncurrent Assets	17,145,129.56	13,733,862.00	3,411,267.56	24.84%
<b>TOTAL ASSETS</b>	<b>202,538,910.06</b>	<b>163,565,383.00</b>	<b>38,973,527.06</b>	<b>23.83%</b>
Current Liabilities	6,952,660.00	5,903,455.00	1,049,205.00	17.77%
Noncurrent Liabilities	58,109,038.99	35,217,351.00	22,891,687.99	65.00%
<b>TOTAL LIABILITIES</b>	<b>65,061,698.99</b>	<b>41,120,806.00</b>	<b>23,940,892.99</b>	<b>58.22%</b>
Invested in Capital Assets, Net of Related Debt Restricted	106,183,099.83	95,270,149.00	10,912,950.83	11.45%
Expendable	3,059,112.00	3,265,551.00	-206,439.00	-6.32%
Nonexpendable	10,801,299.68	10,019,880.00	781,419.68	7.80%
Unrestricted	17,433,699.56	13,888,997.00	3,544,702.56	25.52%
<b>TOTAL NET ASSETS</b>	<b>\$ 137,477,211.07</b>	<b>\$ 122,444,577.00</b>	<b>\$ 15,032,634.07</b>	<b>12.28%</b>
<b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>				
Student Tuition and Fees, Net	\$ 20,289,956.73	\$ 17,649,088.00	\$ 2,640,868.73	14.96%
Grants and Contracts	1,337,169.63	1,129,746.00	207,423.63	18.36%
Sales and Services, Net	13,597,189.44	13,492,249.00	104,940.44	0.78%
Other Operating Revenues	1,240,893.69	549,489.00	691,404.69	125.83%
<b>TOTAL OPERATING REVENUES</b>	<b>36,465,209.49</b>	<b>32,820,572.00</b>	<b>3,644,637.49</b>	<b>11.10%</b>
Salaries and Benefits	62,114,702.20	62,916,481.00	(801,778.80)	-1.27%
Supplies and Materials	12,399,298.82	11,644,596.00	754,702.82	6.48%
Services	17,053,991.96	18,498,061.00	(1,444,069.04)	-7.81%
Scholarships and Fellowships	10,116,671.03	13,187,179.00	(3,070,507.97)	-23.28%
Utilities	3,669,948.01	3,909,556.00	(239,607.99)	-6.13%
Depreciation	4,218,838.87	3,302,776.00	916,062.87	27.74%
<b>TOTAL OPERATING EXPENSES</b>	<b>109,573,450.89</b>	<b>113,458,649.00</b>	<b>(3,885,198.11)</b>	<b>-3.42%</b>
<b>OPERATING LOSS</b>	<b>(73,108,241.40)</b>	<b>(80,638,077.00)</b>	<b>(7,529,835.60)</b>	<b>-9.34%</b>
State Appropriations	53,912,856.12	49,801,874.00	4,110,982.12	8.25%
State Aid - Federal Recovery Funds		3,089,245.00	(3,089,245.00)	-100.00%
Noncapital Grants and Gifts	21,087,673.70	26,317,410.00	(5,229,736.30)	-19.87%
Other Nonoperating Revenues (Expenses)	(3,252,658.95)	854,547.00	(4,107,205.95)	-480.63%
<b>NET NONOPERATING REVENUES</b>	<b>71,747,870.87</b>	<b>80,063,076.00</b>	<b>(8,315,205.13)</b>	<b>-10.39%</b>
Capital Grants	14,607,646.02	9,364,181.00	5,243,465.02	55.99%
Refund of Prior Years Capital Appropriations		(245.00)	245.00	100.00%
Capital Gifts	1,000,000.00		1,000,000.00	100.00%
Additions to Permanent Endowments	785,358.58	708,116.00	77,242.58	10.91%
<b>INCREASE IN NET ASSETS</b>	<b>15,032,634.07</b>	<b>9,497,051.00</b>	<b>5,535,583.07</b>	<b>58.29%</b>
<b>NET ASSETS-BEGINNING OF YEAR</b>	<b>122,444,577.00</b>	<b>112,947,526.00</b>	<b>9,497,051.00</b>	<b>8.41%</b>
<b>NET ASSETS-END OF YEAR</b>	<b>\$ 137,477,211.07</b>	<b>\$ 122,444,577.00</b>	<b>\$ 15,032,634.07</b>	<b>12.28%</b>

***The University of North Carolina at Pembroke***  
***Statement of Net Assets***  
***June 30, 2012***

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

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 18,156,736.60
Restricted Cash and Cash Equivalents	5,656,287.48
Receivables, Net (Note 4)	1,233,882.83
Inventories	1,263,823.01
Notes Receivable, Net (Note 4)	223,649.22
	<hr/>
Total Current Assets	26,534,379.14
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,588,479.87
Receivables, Net (Note 4)	1,644,311.67
Endowment Investments	12,419,702.27
Other Investments	11,869.48
Notes Receivable (Note 4)	480,766.27
Capital Assets - Nondepreciable (Note 5)	5,917,482.35
Capital Assets - Depreciable, Net (Note 5)	152,941,919.01
	<hr/>
Total Noncurrent Assets	176,004,530.92
	<hr/>
Total Assets	202,538,910.06

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	3,027,758.41
Due to Primary Government	7,347.40
Unearned Revenue	1,003,875.39
Interest Payable	1,070,451.72
Long-Term Liabilities - Current Portion (Note 8)	1,843,227.08
	<hr/>
Total Current Liabilities	6,952,660.00
Noncurrent Liabilities:	
Deposits Payable	282,466.68
Funds Held for Others	365,117.54
U. S. Government Grants Refundable	906,355.08
Long-Term Liabilities (Note 8)	56,555,099.69
	<hr/>
Total Noncurrent Liabilities	58,109,038.99
	<hr/>
Total Liabilities	65,061,698.99

*The University of North Carolina at Pembroke*  
*Statement of Net Assets*  
*June 30, 2012*

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	106,183,099.83
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,967,197.97
Endowed Professorships	6,605,764.90
Departmental Uses	149,293.92
Loans	79,042.89
Expendable:	
Scholarships and Fellowships	759,649.12
Endowed Professorships	1,020,125.55
Departmental Uses	1,018,891.31
Capital Projects	260,446.02
Unrestricted	<u>17,433,699.56</u>
Total Net Assets	<u>\$ 137,477,211.07</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, 2012***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 20,289,956.73
Federal Grants and Contracts	629,285.81
State and Local Grants and Contracts	398,845.78
Nongovernmental Grants and Contracts	309,038.04
Sales and Services, Net (Note 10)	13,597,189.44
Interest Earnings on Loans	151,050.75
Other Operating Revenues	<u>1,089,842.94</u>
Total Operating Revenues	<u>36,465,209.49</u>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	62,114,702.20
Supplies and Materials	12,399,298.82
Services	17,053,991.96
Scholarships and Fellowships	10,116,671.03
Utilities	3,669,948.01
Depreciation	<u>4,218,838.87</u>

Total Operating Expenses 109,573,450.89

Operating Loss (73,108,241.40)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	53,912,856.12
Noncapital Grants - Student Financial Aid	18,195,799.56
Other Noncapital Grants	2,264,441.59
Noncapital Gifts	627,432.55
Investment Income	54,160.84
Interest and Fees on Debt	(3,199,007.01)
Other Nonoperating Expenses	<u>(107,812.78)</u>

Net Nonoperating Revenues 71,747,870.87

Loss Before Other Revenues (1,360,370.53)

Capital Grants	14,607,646.02
Capital Gifts	1,000,000.00
Additions to Endowments	<u>785,358.58</u>

Increase in Net Assets 15,032,634.07

**NET ASSETS**

Net Assets - July 1, 2011	<u>122,444,577.00</u>
Net Assets - June 30, 2012	<u>\$ 137,477,211.07</u>

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, 2012***

***Exhibit A-3***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 35,212,374.13
Payments to Employees and Fringe Benefits	(62,102,738.67)
Payments to Vendors and Suppliers	(33,227,028.85)
Payments for Scholarships and Fellowships	(10,116,671.03)
Collection of Loans	148,673.59
Interest Earned on Loans	151,050.75
Other Receipts	1,089,842.94
	<hr/>
Net Cash Used by Operating Activities	(68,844,497.14)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	53,912,856.12
Noncapital Grants - Student Financial Aid	18,195,799.56
Other Noncapital Grants	2,122,706.07
Noncapital Gifts	627,432.55
Additions to Endowments	785,358.58
William D. Ford Direct Lending Receipts	30,235,476.00
William D. Ford Direct Lending Disbursements	(30,439,022.50)
Other Receipts	29,152.78
	<hr/>
Net Cash Provided by Noncapital Financing Activities	75,469,759.16

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

Proceeds from Capital Debt	4,500,000.00
Capital Grants	14,607,646.02
Capital Gifts	963,127.00
Proceeds from Sale of Capital Assets	21,407.26
Acquisition and Construction of Capital Assets	(16,670,076.88)
Principal Paid on Capital Debt and Leases	(1,616,857.23)
Interest and Fees Paid on Capital Debt and Leases	(2,556,903.29)
Other Payments	(86,406.00)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(838,063.12)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	7,455,964.38
Investment Income	57,103.65
Purchase of Investments and Related Fees	(8,121,542.98)
	<hr/>
Net Cash Used by Investing Activities	(608,474.95)

Net Increase in Cash and Cash Equivalents	5,178,723.95
Cash and Cash Equivalents - July 1, 2011	21,222,780.00
	<hr/>
Cash and Cash Equivalents - June 30, 2012	\$ 26,401,503.95

***The University of North Carolina at Pembroke***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2012***

***Exhibit A-3***  
***Page 2 of 2***

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

Operating Loss	\$ (73,108,241.40)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,218,838.87
Allowances and Write-Offs	17,948.71
Changes in Assets and Liabilities:	
Receivables	102,146.71
Inventories	269,161.99
Notes Receivable	(148,673.82)
Accounts Payable and Accrued Liabilities	(360,942.27)
Unearned Revenue	197,857.39
Compensated Absences	(57,803.00)
Deposits Payable	25,209.68
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (68,844,497.14)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 18,156,736.60
Restricted Cash and Cash Equivalents	5,656,287.48
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,588,479.87
	<hr/>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 26,401,503.95</u>

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

Assets Acquired through the Assumption of a Liability	\$ 20,890,000.00
Funds Escrowed to Defeasement Debt	1,470,000.00
Change in Fair Value of Investments	(54,815.78)
Loss on Disposal of Capital Assets	29,894.06

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, 2012***

***Exhibit B-1***

	<b>University of North Carolina at Pembroke Foundation Inc.</b>	<b>The UNCP University Foundation LLC</b>	<b>The UNCP Student Housing Foundation LLC</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 826,639	\$ 36,120	\$ 506,435
Pooled Investments Held by Fiscal Agent	3,458,941		
Cash Surrender Value of Life Insurance	51,157		
Tenant Security Deposits		16,808	
Assets Held by Trustees		1,463,483	3,095,811
Capital Lease Receivable			41,198,333
Receivables, Net		27,507	
Accrued Interest Receivable			793,789
Unconditional Promises to Give	195,280		
Prepaid Expenses		28,772	
Bond Issuance Costs (Net of Accumulated Amortization of \$11,158)			334,751
Deferred Financing Costs, Net		381,053	
Property and Equipment, Net	3,910,502	6,579,291	
<b>Total Assets</b>	<b>8,442,519</b>	<b>8,533,034</b>	<b>45,929,119</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	20,000	100,141	
Prepaid Rent		33,092	
Interest Payable		35,097	699,633
Tenant Security Deposits		16,608	
Funds Held for Others			1,606,043
Interest Rate Swap Fair Value Liability		2,790,762	
Notes Payable	364,915		
Bonds Payable		10,050,000	41,291,516
<b>Total Liabilities</b>	<b>384,915</b>	<b>13,025,700</b>	<b>43,597,192</b>
<b>NET ASSETS</b>			
Unrestricted	4,389,087	(4,492,666)	2,331,927
Temporarily Restricted	660,539		
Permanently Restricted	3,007,978		
<b>Total Net Assets</b>	<b>\$ 8,057,604</b>	<b>\$ (4,492,666)</b>	<b>\$ 2,331,927</b>

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, 2012**

**Exhibit B-2**

	<b>University of North Carolina at Pembroke Foundation Inc.</b>	<b>The UNCP University Foundation LLC</b>	<b>The UNCP Student Housing Foundation LLC</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
Revenues and Gains:			
Contributions	\$ 249,623	\$ 0	\$ 0
Interest Income	5,104	7,540	2,134,045
Income on Long-Term Investments			
Rental Income		1,199,893	
Unrealized Gains (Losses) on Investments	(244)		
Other		629,456	260,375
Total Unrestricted Revenues and Gains	<u>254,483</u>	<u>1,836,889</u>	<u>2,394,420</u>
Net Assets Released from Restrictions:	<u>360,742</u>		
Total Unrestricted Revenues and Gains	<u>615,225</u>		
Expenses and Losses:			
Program Service	206,940		
Development and Fundraising	49,172		
Interest on Debt		397,118	1,949,811
Professional Fees			5,000
Fiscal Agent Fees			47,277
Amortization		19,881	11,158
Depreciation		257,953	
Contributions			840,311
Salaries and Employee Benefits		122,485	
Management and General	135,764		
Repairs and Maintenance		117,341	
Utilities		268,519	
Property Management Fee		86,904	
Property Insurance		24,893	
Change in Fair Value of Interest Rate Swap		1,114,294	
Other		320,277	4,546
Total Expenses and Losses	<u>391,876</u>	<u>2,729,665</u>	<u>2,858,103</u>
Increase (Decrease) in Unrestricted Net Assets	<u>223,349</u>	<u>(892,776)</u>	<u>(463,683)</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>			
Contributions	220,529		
Income Earned on Investments	1,967		
Unrealized Gains on Investments	13,611		
Net Assets Released from Restrictions	<u>(360,742)</u>		
Total Revenue and Net Assets Released from Restrictions	<u>(124,635)</u>		
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>			
Contributions	<u>305,508</u>		
Increase in Permanently Restricted Net Assets	<u>305,508</u>		
Increase (Decrease) in Net Assets	404,222	(892,776)	(463,683)
Net Assets at Beginning of Year	<u>7,653,382</u>	<u>(3,599,890)</u>	<u>2,795,610</u>
Net Assets at End of Year	<u>\$ 8,057,604</u>	<u>\$ (4,492,666)</u>	<u>\$ 2,331,927</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, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

The University of North Carolina at Pembroke Foundation Inc. (Foundation) acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of seven elected public directors, three 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 Foundation is considered a component unit of the University and is reported in separate financial

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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statements because of the difference in its reporting model, as described below.

The UNCP University Foundation LLC and The UNCP Student Housing Foundation LLC provide housing for University students. The UNCP University Foundation LLC (the "Courtyard") was organized as a limited liability company on October 16, 2000, under the laws of the State of North Carolina for the purposes of acquiring, developing, constructing, and operating a 336-bed student housing rental project. The property location is in Pembroke, North Carolina and is currently known as the University Courtyard Apartments. The major activities of the Courtyard are governed by an operating agreement. The University of North Carolina at Pembroke 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, Oak Hall, and Cypress Hall. Village Apartments and Oak Hall each have 360 beds. Cypress Hall was completed on July 28, 2011 and has 476 beds. The major activities of the UNCP Student 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, 2012, the University of North Carolina at Pembroke Foundation Inc. distributed \$206,940.00 to the University for both restricted and unrestricted purposes. The UNCP Student Housing Foundation LLC distributed \$300,000.00 to University Housing for operations. Complete financial statements for the Foundation can be obtained from the University's Office of Finance and Administration.

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



## NOTES TO THE FINANCIAL STATES (CONTINUED)

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Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity 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 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, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes 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 prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale in the bookstore is valued using the weighted average cost 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 46 years for general infrastructure, 10 to 50 years for buildings, and 2 to 30 years for equipment.

Displays in 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, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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Revenue bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. If the University's bond premiums/discounts are considered immaterial, they 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 STATES (CONTINUED)

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

**Unrestricted Net Assets** - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, 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 STATES (CONTINUED)

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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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$26,339,452.31 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 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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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) 707-0500.

Cash on hand at June 30, 2012 was \$20,079.97. The carrying amount of the University's deposits not with the State Treasurer was \$41,971.67 and the bank balance was \$37,933.67. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, the University's bank balance was not exposed to custodial credit risk.

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

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

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

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.

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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

Investments are subject to the following risks.

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

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

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the 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 earning. 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, 2012, for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

Investment Type	Fair Value	Investment Maturities (in Years)			More than 10
		Less Than 1	1 to 5	6 to 10	
<b>Debt Securities</b>					
U.S. Treasuries	\$ 1,281,431.94	\$ 0.00	\$ 949,037.78	\$ 332,394.16	\$ 0.00
U.S. Agencies	688,196.77		623,559.70	64,637.07	
Debt Mutual Funds	449,802.27		161,928.72	287,873.55	
Money Market Mutual Funds	493,062.97	493,062.97			
Domestic Corporate Bonds	<u>1,222,922.69</u>		<u>685,492.55</u>	<u>467,886.75</u>	<u>69,543.39</u>
<b>Total Debt Securities</b>	4,135,416.64	<u>\$ 493,062.97</u>	<u>\$ 2,420,018.75</u>	<u>\$ 1,152,791.53</u>	<u>\$ 69,543.39</u>
<b>Other Securities</b>					
Investments in Real Estate	635,303.77				
Hedge Funds	1,002,760.56				
Domestic Stocks	7,500,597.23				
Foreign Stocks	1,886,037.38				
Managed Futures	<u>718,528.13</u>				
<b>Total Long-Term Investment Pool</b>	<u>\$ 15,878,643.71</u>				

## NOTES TO THE FINANCIAL STATES (CONTINUED)

At June 30, 2012, 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	\$ 688,196.77	\$ 0.00	\$ 688,196.77	\$ 0.00	\$ 0.00	\$ 0.00
Debt Mutual Funds	449,802.27					449,802.27
Money Market Mutual Funds	493,062.97	493,062.97				
Domestic Corporate Bonds	1,222,922.69		128,712.16	650,486.74	443,723.79	

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, 2012, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years)
		More than 10
Annuity Contracts	\$ 11,869.48	\$ 11,869.48

At June 30, 2012, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	Unrated
Annuity Contracts	\$ 11,869.48	\$ 11,869.48



## NOTES TO THE FINANCIAL STATES (CONTINUED)

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**Total Investments** - The following table presents the fair value of the total investments at June 30, 2012:

<b>Investment Type</b>	<u>Fair Value</u>
<b>Debt Securities</b>	
U.S. Treasuries	\$ 1,281,431.94
U.S. Agencies	688,196.77
Annuity Contracts	11,869.48
Debt Mutual Funds	449,802.27
Money Market Mutual Funds	493,062.97
Domestic Corporate Bonds	1,222,922.69
<b>Other Securities</b>	
Investments in Real Estate	635,303.77
Hedge Funds	1,002,760.56
Domestic Stocks	7,500,597.23
Foreign Stocks	1,886,037.38
Managed Futures	718,528.13
<b>Total Investments</b>	<u><u>\$ 15,890,513.19</u></u>

Total investments include \$3,458,941.44 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 STATES (CONTINUED)

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### University of North Carolina at Pembroke Foundation Inc. -

The composition of investments at June 30, 2012 is as follows:

	Fair Value
Money Market Funds	\$ 107,407
Stocks	2,156,632
Corporate Fixed Income	266,397
Government Securities	429,056
Mutual Funds	124,491
Hedge Funds	229,535
Investments in Real Estate	145,423
	\$ 3,458,941

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2012.

	Unrestricted	Temporarily Restricted	Total
Investment Income	\$ 5,104	\$ 1,967	\$ 7,071
Unrealized Gains (Losses)	(244)	13,611	13,367
	\$ 4,860	\$ 15,578	\$ 20,438

**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 Foundation.

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.

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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At June 30, 2012 funds held by the Trustee consist of:

	<u>June 30, 2012</u>
Trustee - debt service fund	\$ 908,247
Trustee - bond fund principal	270,000
Trustee - revenue fund	8,000
Trustee - bond fund reimbursement	20,352
Trustee - other trustee funds	256,884
	<u>\$ 1,463,483</u>

**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, 2012 are \$1,421,601.

As a requirement of 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, 2012 are \$1,674,211.

The assets held by the trustee were comprised as follows at June 30, 2012:

	<u>June 30, 2012</u>
Commercial Paper	\$ 1,424,155
Money Market Funds	1,421,600
Government Bonds	250,056
	<u>\$ 3,095,811</u>

## NOTES TO THE FINANCIAL STATES (CONTINUED)

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2012, is as follows:

Cash on Hand	\$	20,079.97
Amount of Deposits with Private Financial Institutions		41,971.67
Deposits in the Short-Term Investment Fund		26,339,452.31
Long-Term Investment Pool		12,419,702.27
Non-Pooled Investments		11,869.48
		11,869.48
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>38,833,075.70</b>
		38,833,075.70
Deposits		
Current:		
Cash and Cash Equivalents	\$	18,156,736.60
Restricted Cash and Cash Equivalents		5,656,287.48
Noncurrent:		
Restricted Cash and Cash Equivalents		2,588,479.87
		2,588,479.87
<b>Total Deposits</b>		<b>26,401,503.95</b>
		26,401,503.95
Investments		
Noncurrent:		
Endowment Investments		12,419,702.27
Other Investments		11,869.48
		11,869.48
<b>Total Investments</b>		<b>12,431,571.75</b>
		12,431,571.75
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>38,833,075.70</b>
		38,833,075.70

**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

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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, 2012, net appreciation of \$1,742,529.53 was available to be spent, of which \$1,020,125.55 was classified in net assets as restricted: expendable: endowed professorships and \$693,740.54 was classified as restricted: expendable: scholarships and fellowships as they are restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 1,529,318.00	\$ 780,345.44	\$ 748,972.56
Accounts	44,541.30		44,541.30
Intergovernmental	418,002.33		418,002.33
Pledges	20,681.62	6,204.52	14,477.10
Other	7,889.54		7,889.54
<b>Total Current Receivables</b>	<u>\$ 2,020,432.79</u>	<u>\$ 786,549.96</u>	<u>\$ 1,233,882.83</u>
<b>Noncurrent Receivables:</b>			
Due from Foundation	\$ 1,606,042.76	\$	\$ 1,606,042.76
Pledges	54,669.92	16,401.01	38,268.91
<b>Total Noncurrent Receivables</b>	<u>\$ 1,660,712.68</u>	<u>\$ 16,401.01</u>	<u>\$ 1,644,311.67</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 551,417.41	\$ 383,807.69	\$ 167,609.72
Institutional Student Loan Programs	56,039.50		56,039.50
<b>Total Notes Receivable - Current</b>	<u>\$ 607,456.91</u>	<u>\$ 383,807.69</u>	<u>\$ 223,649.22</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 480,766.27</u>	<u>\$ 0</u>	<u>\$ 480,766.27</u>

## NOTES TO THE FINANCIAL STATES (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 2,085,642.04	\$ 1,292,052.50	\$ 0.00	\$ 3,377,694.54
Art, Literature, and Artifacts	168,729.87			168,729.87
Construction in Progress	13,816,750.88	2,371,057.94	13,816,750.88	2,371,057.94
<b>Total Capital Assets, Nondepreciable</b>	<b>16,071,122.79</b>	<b>3,663,110.44</b>	<b>13,816,750.88</b>	<b>5,917,482.35</b>
Capital Assets, Depreciable:				
Buildings	124,397,664.97	38,934,756.23		163,332,421.20
Machinery and Equipment	12,840,515.11	3,348,236.11	257,608.57	15,931,142.65
General Infrastructure	18,413,131.12	4,134,073.76		22,547,204.88
<b>Total Capital Assets, Depreciable</b>	<b>155,651,311.20</b>	<b>46,417,066.10</b>	<b>257,608.57</b>	<b>201,810,768.73</b>
Less Accumulated Depreciation for:				
Buildings	31,886,051.48	2,876,923.62		34,762,975.10
Machinery and Equipment	7,013,803.28	980,903.72	206,307.25	7,788,399.75
General Infrastructure	5,956,463.34	361,011.53		6,317,474.87
<b>Total Accumulated Depreciation</b>	<b>44,856,318.10</b>	<b>4,218,838.87</b>	<b>206,307.25</b>	<b>48,868,849.72</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>110,794,993.10</b>	<b>42,198,227.23</b>	<b>51,301.32</b>	<b>152,941,919.01</b>
<b>Capital Assets, Net</b>	<b>\$ 126,866,115.89</b>	<b>\$ 45,861,337.67</b>	<b>\$ 13,868,052.20</b>	<b>\$ 158,859,401.36</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 2,080,497.44
Accrued Payroll	330,805.70
Contract Retainage	606,517.68
Other	9,937.59
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 3,027,758.41</b>

## NOTES TO THE FINANCIAL STATES (CONTINUED)

### NOTE 7 - SHORT-TERM DEBT - LETTER OF CREDIT

**Component Unit –The UNCP University Foundation LLC** - In connection with the long-term debt the Foundation has a letter of credit in the amount of \$10,220,850.00 with Wells Fargo Bank, National Association, formerly known as Wachovia Bank, National Association. The letter of credit serves as a credit enhancement to the bonds and expires February 12, 2013. Short-term debt activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Draws	Repayments	Balance June 30, 2012
Line of Credit	\$ 0.00	\$ 275,769.81	\$ 275,769.81	\$ 0.00

### 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, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 10,400,000.00	\$ 0.00	\$ 2,160,000.00	\$ 8,240,000.00	\$ 425,000.00
Notes Payable	104,529.00	5,970,000.00	104,529.00	5,970,000.00	180,000.00
Capital Leases Payable	21,195,967.00	20,890,000.00	822,328.23	41,263,638.77	851,480.08
Compensated Absences	2,982,491.00	2,004,061.00	2,061,864.00	2,924,688.00	386,747.00
<b>Total Long-Term Liabilities</b>	<b>\$ 34,682,987.00</b>	<b>\$ 28,864,061.00</b>	<b>\$ 5,148,721.23</b>	<b>\$ 58,398,326.77</b>	<b>\$ 1,843,227.08</b>

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

**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, 2012	Principal Outstanding June 30, 2012
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Recreational Facilities	2006B	3.75%-5.00%	09/25/2020	\$ 816,940.00	\$ 255,000.00	\$ 561,940.00
Dining System	2006B	3.75%-5.00%	09/25/2015	518,060.00	255,000.00	263,060.00
University Center Expansion Supplement	2006B	3.75%-5.00%	09/25/2026	1,965,000.00	350,000.00	1,615,000.00
University Center Renovations	2003B	2.00%-4.75%	03/10/2028	3,100,000.00	811,764.70	2,288,235.30
Auxillary Services Building	2003B	2.00%-4.75%	03/10/2028	1,550,000.00	405,882.36	1,144,117.64
Recreational Facilities	2003B	2.00%-4.75%	03/10/2028	620,000.00	162,352.94	457,647.06
Multipurpose Facility Athletic Field House	2008A	3.00%-5.00%	10/01/2033	2,055,000.00	145,000.00	1,910,000.00
<b>Total Revenue Bonds Payable (principal only)</b>				<b>\$ 10,625,000.00</b>	<b>\$ 2,385,000.00</b>	<b>\$ 8,240,000.00</b>

## NOTES TO THE FINANCIAL STATES (CONTINUED)

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 425,000.00	\$ 365,448.74	\$ 180,000.00	\$ 206,260.77
2014	435,000.00	348,998.76	190,000.00	288,641.43
2015	460,000.00	331,658.76	283,300.01	286,157.88
2016	470,000.00	312,858.76	408,609.90	198,541.35
2017	420,000.00	294,463.74	434,058.44	183,852.56
2018-2022	2,305,000.00	1,181,103.19	1,746,229.64	692,681.86
2023-2027	2,565,000.00	636,637.56	1,751,179.74	379,753.51
2028-2032	895,000.00	154,831.24	976,622.27	48,641.17
2033-2037	265,000.00	13,375.00		
<b>Total Requirements</b>	<b>\$ 8,240,000.00</b>	<b>\$ 3,639,375.75</b>	<b>\$ 5,970,000.00</b>	<b>\$ 2,284,530.53</b>

**D. Bond Defeasance** - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On April 2, 2012 the University entered into a loan agreement with Branch Banking and Trust Company in the amount of \$1,470,000.00 refunding bonds with an average interest rate of 3.19%. The note was issued for a current refunding of \$1,470,000.00 of outstanding Series 1998B bonds with an average interest rate range of 4.00-5.25%. Under the terms of the loan agreement, Branch Banking and Trust transferred the proceeds of the loan to The Bank of New York Mellon, the fiscal agent for the Series 1998B bonds. The refunding was undertaken to reduce total debt service payments by \$74,010.00 over the next 6 years and resulted in an economic gain of \$68,919.86.

**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, 2012, the outstanding balance of prior year defeased bonds was \$860,000.00.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	\$ 4,500,000.00	\$ 0.00	\$ 4,500,000.00
Refunding Series 1198B Bonds	BB&T Bank	3.19%	10/01/2018	1,470,000.00		1,470,000.00
<b>Total Notes Payable</b>				<b>\$ 5,970,000.00</b>	<b>\$ 0.00</b>	<b>\$ 5,970,000.00</b>



## NOTES TO THE FINANCIAL STATES (CONTINUED)

### 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 loan funds 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 the LIBOR. The interest rate at June 30, 2012 was 2.89%. The term of the loan is eight years and the loan will mature in July 2015. The balance of the note payable at June 30, 2012 was \$364,915.

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

Year Ending June 30:	Amount
2013	\$ 293,931
2014	70,894
	<u>\$ 364,915</u>

**The UNCP University Foundation LLC** - Long-term debt consists of \$10,050,000 at June 30, 2012. Tax-exempt series 2001A term bonds dated January 24, 2001, are due at various intervals through 2031, and are payable in monthly installments of interest and annual installments of principal. The bonds bear interest at various interest rates up to 12%, as defined in the Trust Indenture, and are secured by deed and assignment of rents.

As described above, the mortgage payable bears interest at a variable rate. To minimize the effect of changes in interest rates, the Foundation entered into an interest rate swap agreement under which it pays interest at a fixed rate of 3.955% 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, 2012, in the amount of \$2,790,762. 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.

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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The liability of the Foundation 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, 2012, \$35,097 is accrued.

Maturities of long-term debt at June 30, 2012, are as follows:

2013	\$	270,000
2014		285,000
2015		305,000
2016		325,000
2017		340,000
Thereafter		8,525,000
Total		<u>10,050,000</u>
Less current maturities		<u>(270,000)</u>
Net long-term portion	\$	<u>9,780,000</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, 2012 was \$7,953,333.

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, 2012 was \$12,735,000.

In October 2010, the Foundation issued Limited Obligation bonds which gives the Foundation rights to receive certain revenues under a lease agreement dated

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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, 2012 was \$20,510,000. Premiums paid on the bonds at June 30, 2012 were \$93,183.

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

Year Ending June 30	Principal	Interest
2013	\$ 903,333	\$ 2,135,600
2014	945,000	2,102,100
2015	975,000	2,069,500
2016	1,010,000	2,031,419
2017	1,050,000	1,994,281
Thereafter	36,315,000	27,048,387
	41,198,333	\$ 37,381,287
Less Current Maturities	(903,333)	
Add Bond Premium Discount	93,183	
Net Long-Term Portion	\$ 40,388,183	

### 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, 2012:

Fiscal Year	Amount
2013	\$ 2,950,377.16
2014	2,948,677.16
2015	2,951,677.16
2016	2,950,077.16
2017	2,947,177.16
2018-2022	14,659,003.99
2023-2027	14,417,936.57
2028-2032	14,075,732.73
2033-2037	13,652,655.67
2038-2042	7,057,917.19
Total Minimum Lease Payments	78,611,231.95
Amount Representing Interest (4.32% Rate of Interest)	37,347,593.18
<b>Present Value of Future Lease Payments</b>	<b>\$ 41,263,638.77</b>

## NOTES TO THE FINANCIAL STATES (CONTINUED)

Buildings acquired under capital lease amounted to \$41,604,075.60 at June 30, 2012. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

- B. Operating Lease Obligations** - The University entered into operating leases for Land and Office Space and Office Equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

Fiscal Year	Amount
2013	\$ 252,997.00
2014	18,394.42
2015	1.00
<b>Total Minimum Lease Payments</b>	<b>\$ 271,392.42</b>

Rental expense for all operating leases during the year was \$227,942.26.

### NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less the Change in the Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 28,258,684.28	\$ 43,849.36	\$ 7,944,842.79	\$ (19,964.60)	\$ 20,289,956.73
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 7,146,614.15	\$ 40,889.00	\$ 2,069,714.19	\$ 0.00	\$ 5,036,010.96
Dining	4,695,200.00	48,193.05	1,267,802.28		3,379,204.67
Student Union Services	34,486.48	15,843.61			18,642.87
Health, Physical Education, and Recreation Services	1,596,941.14	2,578.32	667,152.62		927,210.20
Bookstore	3,849,146.75	93,815.86	626,562.23		3,128,768.66
Parking	324,295.02	201.00		227,977.00	96,117.02
Athletic	248,978.22				248,978.22
Central Stores	15,252.28	10,964.91			4,287.37
Print Shop	444,245.05	422,823.68			21,421.37
Motor Pool	314,601.99	248,372.14			66,229.85
Lyceum	144,435.32	4,160.13			140,275.19
Vending	96,947.73				96,947.73
Laundry	18,454.35				18,454.35
Sales and Services of Education and Related Activities	503,706.01	89,065.03			414,640.98
<b>Total Sales and Services</b>	<b>\$ 19,433,304.49</b>	<b>\$ 976,906.73</b>	<b>\$ 4,631,231.32</b>	<b>\$ 227,977.00</b>	<b>\$ 13,597,189.44</b>

## NOTES TO THE FINANCIAL STATES (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	\$ 31,825,638.55	\$ 1,120,493.34	\$ 1,744,005.77	\$ 900.00	\$ 9,979.79	\$ 0.00	\$ 34,701,017.45
Research	338,918.55	45,663.94	192,408.37				576,990.86
Public Service	1,496,498.40	120,264.16	554,134.49	34,750.00			2,205,647.05
Academic Support	7,890,809.55	2,518,202.65	882,403.62	2,248.71	6,174.89		11,299,839.42
Student Services	4,297,983.02	321,157.37	1,165,980.13		1,019.68		5,786,140.20
Institutional Support	6,636,484.53	841,553.15	1,700,714.22		9,843.86		9,188,595.76
Operations and Maintenance of Plant	5,377,529.20	2,904,541.99	922,104.64		1,992,593.77		11,196,769.60
Student Financial Aid			14,645.08	10,078,772.32			10,093,417.40
Auxiliary Enterprises	4,250,840.40	4,527,422.22	9,877,595.64		1,650,336.02		20,306,194.28
Depreciation						4,218,838.87	4,218,838.87
<b>Total Operating Expenses</b>	<b>\$ 62,114,702.20</b>	<b>\$ 12,399,298.82</b>	<b>\$ 17,053,991.96</b>	<b>\$ 10,116,671.03</b>	<b>\$ 3,669,948.01</b>	<b>\$ 4,218,838.87</b>	<b>\$ 109,573,450.89</b>

### 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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$50,000,839.00, of which \$23,893,861.40 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,777,703.29 and \$1,433,631.68, respectively.

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$1,777,703.29, \$1,177,679.00, and \$822,852.00, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the 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, 2012, 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 \$50,000,839.00, of which \$20,004,490.45 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,368,307.15 and \$1,200,269.43, respectively.

### **B. Deferred Compensation and Supplemental Retirement Income Plans**

Internal Revenue Code Section 457 Plan - The state of North Carolina offers its permanent employees a deferred compensation plan created in accordance

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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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 \$220,745.85 for the year ended June 30, 2012.

Internal Revenue Code 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, 2012, were \$33,631.22. The voluntary contributions by employees amounted to \$244,492.00 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrators are TIAA-CREF and Fidelity Investments. No costs are incurred by the University. The voluntary contributions by employees amounted to \$696,407.48 for the year ended June 30, 2012.

### 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

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the University contributed 5.0% 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, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$2,194,917.59, 2,177,439.00, and \$1,932,874.00, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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



## NOTES TO THE FINANCIAL STATES (CONTINUED)

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$228,271.43, \$231,075.00, and \$223,354.00, 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

## NOTES TO THE FINANCIAL STATES (CONTINUED)

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coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. The University also purchased through the Fund all risk coverage for auxiliary buildings and contents.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

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

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.

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 STATES (CONCLUDED)

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### NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,948,489.51 and on other purchases were \$3,201,014.55 at June 30, 2012.
- 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.

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Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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

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

We have audited the financial statements of The University of North Carolina at Pembroke, a constituent institution of the 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, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 13, 2012. 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

The University's management is responsible for establishing and maintaining effective 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

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

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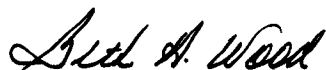
possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA  
State Auditor

December 13, 2012

## **ORDERING INFORMATION**

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647

This audit required 1135 audit hours at an approximate cost of \$81,720. The cost represents .048% of the University's total assets and .074% of total expenses subjected to audit.