

STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

THOMAS W. ROSS, PRESIDENT

BOARD OF TRUSTEES

DR. WILEY G. BARRETT, CHAIRMAN

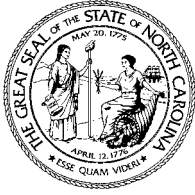
ADMINISTRATIVE OFFICERS

DR. KYLE R. CARTER, CHANCELLOR

DR. RICHARD COSENTINO, VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION

STATE OF NORTH CAROLINA

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, 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.

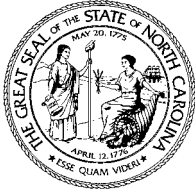
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
A-1 Statement of Net Position	12
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	14
A-3 Statement of Cash Flows	15
Notes to the Financial Statements	17
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	47
ORDERING INFORMATION	49

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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. and Subsidiaries, which represent 28 percent, 6 percent, and 4 percent, respectively, of the assets, net position, and revenues of the University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of North Carolina at Pembroke Foundation Inc. and Subsidiaries, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Pembroke, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2013, the University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 61 - *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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 a 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 and other auditors 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

we obtained during our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 9, 2013

[This Page Left Blank Intentionally]

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

Introduction

The following discussion and analysis is provided by The University of North Carolina at Pembroke's (the University) financial management as an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes between fiscal years 2013 and 2012, 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 Position, the Statement of Revenues, Expenses, and Changes in Net Position, 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 Position provides information relative to the University's assets, deferred outflow of resources, liabilities, and net position 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 position on this statement is categorized as net investment in capital assets, restricted or unrestricted. Restricted net position is categorized as expendable or nonexpendable for the purpose noted. Overall, the Statement of Net Position 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 Position provides information relative to the results of the University's operations, nonoperating activities, and other activities affecting net position, 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 Position 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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 organization, although legally separate, The University of North Carolina at Pembroke Foundation Inc., and its wholly-owned subsidiaries, The UNCP University Foundation LLC and the UNCP Student Housing Foundation LLC, is a component unit of the University that is blended. Based on the nature and significance of its relationship to the University it is reported as if it was part of the University and is included in this Management's Discussion and Analysis. The UNCP University Foundation LLC leases one apartment complex to the University and The UNCP Student Housing Foundation LLC leases one apartment building and two residence halls to the University all of which are used as student housing.

Comparison of Two-Year Data for 2013 to 2012

Comparative financial data of 2013 to 2012 is summarized in Table 1. Discussion of comparative data is included in the following section. The 2012 financial statement data is restated to change the prior presentation of the UNCP Foundation Inc. and its wholly owned subsidiaries. This component unit was previously presented as a discrete component unit. However, the proper presentation, as clarified by GASB Statement 61, is to blend the component unit in the financial reporting entity.

Analysis of Overall Financial Position – Statement of Net Position

Total assets increased by \$19,121.73 or 0.01% from the prior year. Current assets decreased by \$3,073,934.06 or 10.48%. The decrease in current assets is primarily reflected through the \$3,368,674.68 or 13.32% decrease in current cash and cash equivalents. This resulted from both the increase in losses from operating activities as well as expensing the remaining \$2,586,283.98 million in note proceeds related to the Siemens energy efficiency project. Capital assets, net increased by \$2,026,631.79 or 1.20% from the previous year. This increase resulted from the completion of the energy conservation measures implemented under the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Siemens Technologies performance contract, the completion of University Dining Hall renovations projects, and a general increase in equipment purchases for capital projects recently completed. Other noncurrent assets increased by \$1,066,424.00 or 4.75%. The primary reason for the increase in noncurrent assets was an upturn in investment earnings and a rise in endowment contributions.

Total liabilities decreased by \$3,053,589.28 or 3.90% from the previous year. Current liabilities decreased by \$1,042,540.99 or 13.85%. The decrease in current liabilities reflects a continuing focus on processing vendor payments timely to ensure good vendor relations and to ensure that the University may take advantage of discounts for early payment. In addition, the University has been implementing measures to reduce spending and to develop plans to improve efficiencies as budget cuts and reversions have become more frequent. Noncurrent liabilities decreased by \$2,011,048.29 or 2.84%. Noncurrent liabilities declined due to principal payments on debt and the Caton Fieldhouse note payoff with Bank of America.

Restricted expendable net position increased by \$2,963,610.32 or 35.57% from the previous year. It consists of income from endowment funds, gifts, pledges with specific restrictions, and grants from third party agencies with expenditure restrictions. Restricted nonexpendable net position consists of endowment gifts with specific restrictions and gifts whose principal is maintained in perpetuity. The fair market value of endowment investments increased by \$1,560,837.44. The amount of funds transferred to trustees for current and future debt service increased by \$1,236,508.31. Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. Unrestricted net assets decreased by \$2,238,936.81 or 13.00% primarily due to an increase in the operating loss of the University.

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 \$1,192,706.84 which represents a \$101,840.26 or a 9.34% increase from fiscal year 2012. Endowments support scholarships, professorships, and various other programs and activities.

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

The Statement of Revenues, Expenses, and Changes in Net Position shows that operating revenues decreased by \$661,674.78 or 1.80% over the previous year. Student tuition and fees, net increased by \$199,073.03 or 0.98% reflecting the final year of a 16.10% increase for undergraduates and a 15.50% increase for graduates. Grants and Contracts decreased by 417,783.06 or 59.02% due to the ending of numerous state and private research grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE OPERATING REVENUES BY CLASS

	JUNE 30, 2013	JUNE 30, 2012 (as restated)
Student Tuition and Fees (Net)	\$ 20,489,029.76	\$ 20,289,956.73
State and Local Grants and Contracts	133,759.76	398,845.78
Nongovernmental Grants and Contracts	156,341.00	309,038.04
Sales and Services (Net)	14,692,289.86	14,554,958.36
Other Operating Revenues	551,888.81	1,132,185.06
Total Operating Revenues	\$ 36,023,309.19	\$ 36,684,983.97

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

	JUNE 30, 2013	JUNE 30, 2012 (as restated)
Instruction	\$ 34,671,056.77	\$ 34,701,017.45
Research	477,162.96	576,990.86
Public Service	1,724,367.19	2,205,647.05
Academic Support	12,384,151.44	11,299,839.42
Student Services	6,996,691.36	5,786,140.20
Institutional Support	10,725,038.86	9,278,901.76
Operating & Maintenance of Plant	9,451,899.85	11,196,769.60
Student Financial Aid	9,877,174.32	10,093,417.40
Auxiliary Enterprises	20,739,791.30	20,765,148.57
Depreciation	5,043,105.99	4,536,132.81
Total Operating Expenses	\$ 112,090,440.04	\$ 110,440,005.12

Total operating expenses increased by \$1,650,434.92 or 1.49% from the previous year. Salaries and Benefits increased by \$2,147,730.23 or 3.45% reflecting a State Legislative across the board increase in salaries of 1.20% plus benefits. Employer benefits for retirement increased by 1.11% and new employees were hired at more competitive market rates. Services increased by \$1,500,348.80 or 8.65% resulting from increases in University contracts and general price increases. Supplies and materials decreased by \$2,160,234.81 or 17.60% due to a \$735,082.96 decrease in furniture expenses related to the furnishing of Cypress Hall, a \$589,513.52 decrease in heating and air conditioning system repairs, a \$294,529.01 decrease in office furniture expenses, as well as a \$370,001.34 decrease in purchases of general office supplies.

The University shows a significant operating loss of \$76,067,130.85 for 2013 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 \$54,372,770.30, an increase of \$459,914.18 or 0.85% for operations. The University also received \$3,340,966.58, a decrease of \$12,266,679.44 or 78.59% in capital grants and gifts for capital projects. The large percentage decrease in capital grants is a result of decreased funding for the Allied Health building which was completed in the previous year.

Analysis of Net Asset Balances

At June 30, 2013, the gross value of capital assets was \$227,379,939.63. Accumulated depreciation was \$56,257,002.48 and related plant asset debt was \$63,680,000.00. Net investment in capital assets increased \$1,372,542.98 or 1.29%.

Restricted expendable net position totaled \$11,296,535.86 and restricted nonexpendable net position totaled \$14,544,603.19 both representing amounts subject to externally imposed restrictions.

Unrestricted net position totaled \$14,978,931.74 and represents 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 buildings in the amount of \$6,911,498.86 and equipment in the amount of \$1,642,676.39 during the year.

University Athletic Track was the sole project in the construction phase during the year. The Student Health Center remains in the design phase. During the year, expenditures for these projects were \$653,102.48. Construction projects completed included Dining Hall renovations of \$1,800,893.57, Siemens Technologies Energy projects of \$4,184,894.52, and general infrastructure projects such as road improvements of \$411,947.55. For detailed information about capital assets, see Note 5 of the Notes to the Financial Statements.

At June 30, 2013, outstanding commitments on construction contracts were \$1,194,077.00. Retainage on outstanding construction contracts was \$152,305.44.

At June 30, 2013, the University had outstanding bond indebtedness in the amount of \$57,980,076.95 of which \$1,665,000.00 is due within the next year and notes payable of \$5,790,000.00 of which \$190,000.00 is due within the next year. Standard & Poor's Ratings Services removed from CreditWatch with negative implications the 'BB' long-term rating on the University of North Carolina at Pembroke's series 2010A and 2010B limited-obligation Foundation bonds, secured by dormitory system rental revenues. At the same time the 'BB' rating was affirmed. The outlook on the bonds is now stable. At the same time, Standard and Poor's affirmed the University's 'A' issuer credit rating for the University. For more detailed information about outstanding debt, see Note 8 of the Notes to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Enrollment Activities

University enrollment was 6,269 for the fiscal year ending June 30, 2013. Total headcount increased by 18 students from fiscal year 2012.

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE TOTAL FALL ENROLLMENT		
FISCAL YEAR	FULL TIME EQUIVALENT	HEAD COUNT
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
2013	5,526	6,269

Economic Factors and Future Operations

There were mixed signals during 2013 as to the economic outlook especially for higher education funding. State appropriations for University operations increased by a modest amount in 2013. Capital grants decreased significantly due to the completion of the Allied Health building while no other projects were approved. University faculty and staff received a slight increase in salaries. While student enrollment was higher, the increase was much less than anticipated creating additional budget management issues. Sales and service revenues from bookstore sales, housing, and food service operations increased by an insignificant amount. Although funding and budget concerns were serious, University leaders, along with budget and financial managers, have worked consistently and tirelessly to balance the budget. Plans were also implemented to offset budget and revenue reductions with spending reductions, savings, and operational efficiencies.

We are hopeful that the economy will begin an upward trend in the near future. The University is dependent on State appropriations for operations and State agencies have been asked to review and present budget reduction proposals during the current fiscal year. We are optimistic that the economy will improve and the once generous funding from State appropriations and Capital grants will return. University officials have also developed and implemented plans to increase student enrollment which will provide additional dollars to ease the budget shortfall and offset the reduction in State appropriated dollars.

The State continues to fund repairs and renovations but with reduced funds. This funding is necessary to maintain our facilities, but additional funding would be useful in maintaining, upgrading, and improving our capital programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The University's professionally managed endowment increased from \$15,873,564.34 in fiscal year 2012 to \$18,185,552.63 in fiscal year 2013 for an increase of \$2,311,988.29. 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.

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
TABLE 1 - SUMMARY OF STATEMENT OF NET POSITION AND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	FY 2013	FY 2012 (as restated)	INCREASE/ DECREASE	PERCENT CHANGE
STATEMENTS OF NET POSITION				
Current Assets	\$ 26,257,340.35	\$ 29,331,274.41	\$ -3,073,934.06	-10.48%
Capital Assets, Net	171,122,937.15	169,096,305.36	2,026,631.79	1.20%
Other Noncurrent Assets	23,534,741.99	22,468,317.99	1,066,424.00	4.75%
TOTAL ASSETS	220,915,019.49	220,895,897.76	19,121.73	0.01%
Accumulated Decrease in Fair Value of Hedging Derivatives	2,550,592.99	2,790,762.00	-240,169.01	-8.61%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,550,592.99	2,790,762.00	-240,169.01	-8.61%
Current Liabilities	6,486,843.46	7,529,384.45	-1,042,540.99	-13.85%
Noncurrent Liabilities	68,715,761.08	70,726,809.37	-2,011,048.29	-2.84%
TOTAL LIABILITIES	75,202,604.54	78,256,193.82	-3,053,589.28	-3.90%
Net Investment in Capital Assets	107,442,937.15	106,070,394.17	1,372,542.98	1.29%
Restricted				
Expendable	11,296,535.86	8,332,925.54	2,963,610.32	35.57%
Nonexpendable	14,544,603.19	13,809,277.68	735,325.51	5.32%
Unrestricted	14,978,931.74	17,217,868.55	-2,238,936.81	-13.00%
TOTAL NET POSITION	\$ 148,263,007.94	\$ 145,430,465.94	\$ 2,832,542.00	1.95%
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
Student Tuition and Fees, Net	\$ 20,489,029.76	\$ 20,289,956.73	\$ 199,073.03	0.98%
Grants and Contracts	290,100.76	707,883.82	-417,783.06	-59.02%
Sales and Services, Net	14,692,289.86	14,554,958.36	137,331.50	0.94%
Other Operating Revenues	551,888.81	1,132,185.06	-580,296.25	-51.25%
TOTAL OPERATING REVENUES	36,023,309.19	36,684,983.97	-661,674.78	-1.80%
Salaries and Benefits	64,384,917.43	62,237,187.20	2,147,730.23	3.45%
Supplies and Materials	10,115,653.93	12,275,888.74	-2,160,234.81	-17.60%
Services	18,836,007.13	17,335,658.33	1,500,348.80	8.65%
Scholarships and Fellowships	9,876,895.74	10,116,671.03	-239,775.29	-2.37%
Utilities	3,833,859.82	3,938,467.01	-104,607.19	-2.66%
Depreciation	5,043,105.99	4,536,132.81	506,973.18	11.18%
TOTAL OPERATING EXPENSES	112,090,440.04	110,440,005.12	1,650,434.92	1.49%
OPERATING LOSS	-76,067,130.85	-73,755,021.15	-2,312,109.70	3.13%
State Appropriations	54,372,770.30	53,912,856.12	459,914.18	0.85%
Noncapital Grants and Gifts	21,883,392.66	22,090,921.51	-207,528.85	-0.94%
Other Nonoperating Revenues (Expenses), Net	-1,890,163.53	-4,016,038.95	2,125,875.42	-52.93%
NET NONOPERATING REVENUES	74,365,999.43	71,987,738.68	2,378,260.75	3.30%
Capital Grants and Gifts	3,340,966.58	15,607,646.02	-12,266,679.44	-78.59%
Additions to Permanent Endowments	1,192,706.84	1,090,866.58	101,840.26	9.34%
INCREASE IN NET POSITION	2,832,542.00	14,931,230.13	-12,098,688.13	-81.03%
NET POSITION-BEGINNING OF YEAR RESTATED	145,430,465.94	130,499,235.81	14,931,230.13	11.44%
NET POSITION - JUNE 30, 2013	\$ 148,263,007.94	\$ 145,430,465.94	\$ 2,832,542.00	1.95%

The University of North Carolina at Pembroke
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 17,820,007.71
Restricted Cash and Cash Equivalents	4,097,600.56
Restricted Short-Term Investments	1,540,735.22
Receivables, Net (Note 4)	1,248,407.42
Inventories	1,499,780.70
Notes Receivable, Net (Note 4)	50,808.74
	<hr/>
Total Current Assets	26,257,340.35
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,219,427.21
Receivables, Net (Note 4)	167,028.19
Endowment Investments	18,185,552.63
Restricted Investments	3,531,660.52
Notes Receivable, Net (Note 4)	431,073.44
Capital Assets - Nondepreciable (Note 5)	5,075,120.54
Capital Assets - Depreciable, Net (Note 5)	166,047,816.61
	<hr/>
Total Noncurrent Assets	194,657,679.14
	<hr/>
Total Assets	220,915,019.49

DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	2,550,592.99
	<hr/>
Total Deferred Outflows of Resources	2,550,592.99

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	2,370,378.34
Due to Primary Government	6,822.03
Deposits Payable	2,309.00
Unearned Revenue	848,593.32
Interest Payable	1,015,462.77
Long-Term Liabilities - Current Portion (Note 8)	2,243,278.00
	<hr/>
Total Current Liabilities	6,486,843.46
Noncurrent Liabilities:	
Deposits Payable	335,896.56
Funds Held for Others	349,873.33
U. S. Government Grants Refundable	842,203.25
Hedging Derivative Liability	2,550,592.99
Long-Term Liabilities (Note 8)	64,637,194.95
	<hr/>
Total Noncurrent Liabilities	68,715,761.08
	<hr/>
Total Liabilities	75,202,604.54

The University of North Carolina at Pembroke
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	107,442,937.15
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	6,745,200.84
Endowed Professorships	7,602,046.01
Departmental Uses	197,356.34
Expendable:	
Scholarships and Fellowships	2,102,067.59
Endowed Professorships	1,894,004.59
Departmental Uses	716,101.24
Loans	24,575.46
Capital Projects	704,925.20
Debt Service	4,799,248.67
Operations, Maintenance and Other	1,055,613.11
Unrestricted	<u>14,978,931.74</u>
Total Net Position	<u>\$ 148,263,007.94</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 Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 11)	\$ 20,489,029.76
State and Local Grants and Contracts	133,759.76
Nongovernmental Grants and Contracts	156,341.00
Sales and Services, Net (Note 11)	14,692,289.86
Interest Earnings on Loans	75,378.63
Other Operating Revenues	476,510.18

Total Operating Revenues	36,023,309.19
--------------------------	---------------

EXPENSES

Operating Expenses:

Salaries and Benefits	64,384,917.43
Supplies and Materials	10,115,653.93
Services	18,836,007.13
Scholarships and Fellowships	9,876,895.74
Utilities	3,833,859.82
Depreciation	5,043,105.99

Total Operating Expenses	112,090,440.04
--------------------------	----------------

Operating Loss	(76,067,130.85)
----------------	-----------------

NONOPERATING REVENUES (EXPENSES)

State Appropriations	54,372,770.30
Noncapital Grants - Student Financial Aid	17,859,549.78
Noncapital Grants	3,303,018.56
Noncapital Gifts	720,824.32
Investment Income (Net of Investment Expense of \$178,158.48)	1,882,127.26
Interest and Fees on Debt	(3,234,142.32)
Federal Interest Subsidy on Debt	400,379.96
Other Nonoperating Expenses	(938,528.43)

Net Nonoperating Revenues	74,365,999.43
---------------------------	---------------

Loss Before Other Revenues	(1,701,131.42)
----------------------------	----------------

Capital Grants	3,335,866.58
Capital Gifts	5,100.00
Additions to Endowments	1,192,706.84

Increase in Net Position	2,832,542.00
--------------------------	--------------

NET POSITION

Net Position - July 1, 2012, as Restated (Note 19)	145,430,465.94
--	----------------

Net Position - June 30, 2013	\$ 148,263,007.94
------------------------------	-------------------

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, 2013***

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 35,538,604.15
Payments to Employees and Fringe Benefits	(64,124,700.90)
Payments to Vendors and Suppliers	(33,283,873.95)
Payments for Scholarships and Fellowships	(9,876,895.74)
Collection of Loans	59,252.79
Interest Earned on Loans	75,378.63
Other Receipts	476,510.18
	<hr/>
Net Cash Used by Operating Activities	(71,135,724.84)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	54,372,770.30
Noncapital Grants - Student Financial Aid	17,859,549.78
Noncapital Grants	3,283,524.41
Noncapital Gifts	720,824.32
Additions to Endowments	1,192,706.84
William D. Ford Direct Lending Receipts	30,433,162.00
William D. Ford Direct Lending Disbursements	(30,423,277.00)
Other Payments	(355,904.43)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	77,083,356.22

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Grants	3,335,866.58
Capital Gifts	100.00
Acquisition and Construction of Capital Assets	(7,998,703.69)
Principal Paid on Capital Debt	(2,143,248.02)
Interest and Fees Paid on Capital Debt	(3,233,177.90)
Federal Interest Subsidy on Debt Received	400,379.96
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(9,638,783.07)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	9,208,813.73
Investment Income	286,175.80
Purchase of Investments and Related Fees	(10,541,565.18)
	<hr/>
Net Cash Used by Investing Activities	(1,046,575.65)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(4,737,727.34)
Cash and Cash Equivalents - July 1, 2012	27,874,762.82
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 23,137,035.48

***The University of North Carolina at Pembroke
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013***

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (76,067,130.85)
Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,043,105.99
Changes in Assets and Liabilities:	
Receivables (Net)	389,785.64
Inventories	(235,957.69)
Accounts Payable and Accrued Liabilities	(351,167.37)
Due to Primary Government	(525.37)
Unearned Revenue	(155,282.07)
Compensated Absences	185,708.00
Deposits Payable	55,738.88
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (71,135,724.84)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 17,820,007.71
Restricted Cash and Cash Equivalents	4,097,600.56
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,219,427.21
	<hr/>
Total Cash and Cash Equivalents - June 30, 2013	<u>\$ 23,137,035.48</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 5,000.00
Change in Fair Value of Investments	1,569,496.97
Loss on Disposal of Capital Assets	(607,753.21)
Amortization of Bond Premiums	(3,106.10)

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

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is blended in the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it were part of the University.

Blended Component Unit - Although legally separate, The University of North Carolina at Pembroke Foundation Inc. (University Foundation) and its wholly-owned subsidiaries, The UNCP University Foundation LLC (LLC), and The UNCP Student Housing Foundation LLC (Foundation), are reported as if they were part of the University.

The University Foundation is a not-for-profit organization established to foster public understanding of, and support for The University of North Carolina at Pembroke and to solicit and promote donations of any kind for the exclusive benefit of the University. Because the University Foundation's operations are so intertwined with the University, its financial statements, as well as those of its wholly owned subsidiaries have been included with those of the University.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University Foundation is the sole member of the LLC. The LLC was organized as a limited liability company for the purpose of acquiring, developing, constructing, and operating a student housing project. The major activities of the LLC are governed by an operating agreement. Upon dissolution of the LLC, the facility and the underlying property will be conveyed to The University of North Carolina at Pembroke.

The University Foundation is also the sole member of the Foundation. The Foundation was organized as a limited liability company for the purpose of acquiring, developing, constructing, and operating a student housing project on the campus of The University of North Carolina at Pembroke. The major activities of the Foundation are governed by an operating agreement. Upon dissolution of the Foundation, all assets will be conveyed to and all liabilities assumed by The University of North Carolina at Pembroke Foundation Inc.

Separate financial statements for the University Foundation may be obtained from the University Controller's Office, PO Box 1510, Pembroke, NC 28372, or by calling 910-521-6471. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding the blended component unit is provided in Note 17.

The significant transactions between the University and its blended component unit relate to operating and capital lease payments for student housing complexes.

- 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, certificates of participation, notes payable, and compensated absences that will not be paid within the next fiscal year.

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 or discounts are considered immaterial they are expensed as bond issuance costs. Issuance costs are expensed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 Position** - The University's net position is classified as follows:

Net Investment in Capital Assets - 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 Net Investment in Capital Assets.

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

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position- Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 dining, residential life, motor pool, the bookstore, print shop, and physical plant. 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$22,980,359.64 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on hand at June 30, 2013, was \$21,870.04. The carrying amount of the University's deposits not with the State Treasurer, including certificates of deposit, was \$630,765.68 and the bank balance was \$630,765.68. 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, 2013, the University's bank balance was covered by federal depository insurance and was not exposed to custodial credit risk.

- B. Investments** - 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.

Investments of the University Foundation 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.

NOTES TO THE FINANCIAL STATEMENTS (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.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on its pro-rata share of the principal value and undistributed earnings. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 975,591.30	\$ 60,508.80	\$ 835,295.11	\$ 79,787.39	\$ 0.00
U.S. Agencies	567,101.77		449,851.77	82,601.30	34,648.70
Debt Mutual Funds	274,606.72		274,606.72		
Money Market Mutual Funds	1,062,143.05	1,062,143.05			
Domestic Corporate Bonds	1,293,940.29	223,831.88	609,470.04	460,638.37	
Foreign Corporate Bonds	289,486.05		178,410.80	111,075.25	
Total Debt Securities	4,462,869.18	\$ 1,346,483.73	\$ 2,347,634.44	\$ 734,102.31	\$ 34,648.70
Other Securities					
Investments in Real Estate	772,458.18				
Real Estate Investment Trust	79,339.00				
Hedge Funds	1,252,872.11				
Private Equity Limited Partnerships	12,500.00				
Domestic Stocks	6,572,693.38				
Foreign Stocks (denominated in US dollars)	2,824,636.60				
Managed Futures	665,850.35				
Equity ETF/Closed Ends Funds	662,990.01				
Inflation Linked Bonds	220,547.69				
Fixed Income ETF's/CEF's	658,796.13				
Total Long-Term Investment Pool	\$ 18,185,552.63				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2013, 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	BB/Ba and below
U.S. Agencies	\$ 567,101.77	\$ 567,101.77	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Debt Mutual Funds	274,606.72	101,296.81	7,662.15	18,358.40	37,734.70	109,554.66
Money Market Mutual Funds	1,062,143.05	1,062,143.05				
Domestic Corporate Bonds	1,293,940.29		138,595.50	694,156.06	461,188.73	
Foreign Corporate Bonds	289,486.05		83,774.36	136,126.44	69,585.25	
Totals	\$ 3,487,277.88	\$ 1,730,541.63	\$ 230,032.01	\$ 848,640.90	\$ 568,508.68	\$ 109,554.66

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, 2013, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	More than 10
Debt Securities				
U.S. Treasuries	\$ 1,758,756.50	\$ 886,000.00	\$ 872,756.50	\$ 0.00
U.S. Agencies	17,788.15			17,788.15
Commercial Paper	285,819.76	285,819.76		
Annuity Contracts	65,237.29			65,237.29
Money Market Mutual Funds	2,448,834.16	2,448,834.16		
Total Debt Securities	4,576,435.86	<u>\$ 3,620,653.92</u>	<u>\$ 872,756.50</u>	<u>\$ 83,025.44</u>
Other Securities				
Certificates of Deposit	495,959.88			
Total Non-Pooled Investments	<u>\$ 5,072,395.74</u>			

At June 30, 2013, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	Unrated
U.S. Agencies	\$ 17,788.15	\$ 17,788.15
Commercial Paper	285,819.76	285,819.76
Annuity Contracts	65,237.29	65,237.29
Money Market Mutual Funds	2,448,834.16	2,448,834.16
Totals	<u>\$ 2,817,679.36</u>	<u>\$ 2,817,679.36</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments - The following table presents the fair value of the total investments at June 30, 2013:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 2,734,347.80
U.S. Agencies	584,889.92
Commercial Paper	285,819.76
Annuity Contracts	65,237.29
Debt Mutual Funds	274,606.72
Money Market Mutual Funds	3,510,977.21
Domestic Corporate Bonds	1,293,940.29
Foreign Corporate Bonds	289,486.05
Other Securities	
Certificates of Deposit	495,959.88
Investments in Real Estate	772,458.18
Real Estate Investment Trust	79,339.00
Hedge Funds	1,252,872.11
Private Equity Limited Partnerships	12,500.00
Domestic Stocks	6,572,693.38
Foreign Stocks (denominated in US dollars)	2,824,636.60
Managed Futures	665,850.35
Equity ETF/Closed End Funds	662,990.01
Fixed Income ETF's/CEF's	658,796.13
Inflation Linked Bonds	220,547.69
Total Investments	\$ 23,257,948.37

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2013, is as follows:

Cash on Hand	\$ 21,870.04
Amount of Deposits with Private Financial Institutions	134,805.80
Deposits in the Short-Term Investment Fund	22,980,359.64
Long-Term Investment Pool	18,185,552.63
Non-Pooled Investments	5,072,395.74
Total Deposits and Investments	\$ 46,394,983.85
Deposits	
Current:	
Cash and Cash Equivalents	\$ 17,820,007.71
Restricted Cash and Cash Equivalents	4,097,600.56
Noncurrent:	
Restricted Cash and Cash Equivalents	1,219,427.21
Total Deposits	\$ 23,137,035.48
Investments	
Current:	
Restricted Short-Term Investments	\$ 1,540,735.22
Noncurrent:	
Endowment Investments	18,185,552.63
Restricted Investments	3,531,660.52
Total Investments	\$ 23,257,948.37
Total Deposits and Investments	\$ 46,394,983.85

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5.5% of the "average market value" of the endowment funds. The "average market value" is defined as an average of the market values on December 31 of the previous three years. The actual spending may be less than the 5.5% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2013, net appreciation of \$4,190,867.63 was available to be spent, of which \$1,894,004.59 was classified in net position as restricted: expendable: endowed professorships; \$1,750,618.58 was classified in net position as restricted expendable: scholarships and fellowships; and \$154,149.95 was classified in net position as restricted: expendable: departmental uses as they are restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 669,575.77	\$ 349,379.58	\$ 320,196.19
Accounts	221,083.57		221,083.57
Intergovernmental	373,344.65		373,344.65
Pledges	225,274.25	53,461.75	171,812.50
Due From Employees	2,056.03		2,056.03
Federal Interest Subsidy on Debt	133,459.99		133,459.99
Interest Receivable	26,454.49		26,454.49
Total Current Receivables	\$ 1,651,248.75	\$ 402,841.33	\$ 1,248,407.42
Noncurrent Receivables:			
Pledges	\$ 238,612.13	\$ 71,583.94	\$ 167,028.19
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 97,560.25	\$ 46,751.51	\$ 50,808.74
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 824,626.14	\$ 393,552.70	\$ 431,073.44
Institutional Student Loan Programs	56,039.50	56,039.50	
Total Notes Receivable - Noncurrent	\$ 880,665.64	\$ 449,592.20	\$ 431,073.44

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 3,823,964.54	\$ 327,042.30	\$ 0.00	\$ 4,151,006.84
Art, Literature, and Artifacts	168,729.87	5,000.00		173,729.87
Construction in Progress	2,371,057.94	653,102.48	2,273,776.59	750,383.83
Total Capital Assets, Nondepreciable	6,363,752.35	985,144.78	2,273,776.59	5,075,120.54
Capital Assets, Depreciable:				
Buildings	175,942,517.20	6,911,498.86	12,000.00	182,842,016.06
Machinery and Equipment	15,931,142.65	1,642,676.39	136,158.44	17,437,660.60
General Infrastructure	22,547,204.88	411,947.55	934,010.00	22,025,142.43
Total Capital Assets, Depreciable	214,420,864.73	8,966,122.80	1,082,168.44	222,304,819.09
Less Accumulated Depreciation for:				
Buildings	37,582,437.10	3,726,889.85	11,793.83	41,297,533.12
Machinery and Equipment	7,788,399.75	919,046.73	108,537.46	8,598,909.02
General Infrastructure	6,317,474.87	397,169.41	354,083.94	6,360,560.34
Total Accumulated Depreciation	51,688,311.72	5,043,105.99	474,415.23	56,257,002.48
Total Capital Assets, Depreciable, Net	162,732,553.01	3,923,016.81	607,753.21	166,047,816.61
Capital Assets, Net	\$ 169,096,305.36	\$ 4,908,161.59	\$ 2,881,529.80	\$ 171,122,937.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,812,758.67
Accrued Payroll	404,750.67
Contract Retainage	152,305.44
Other	563.56
Total	\$ 2,370,378.34

NOTE 7 - SHORT-TERM DEBT – LETTER OF CREDIT

In connection with the long-term debt the University Foundation has a letter of credit in the amount of \$9,656,415.00 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 December 31, 2014.

Short-term debt activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Draws	Repayments	Balance June 30, 2013
Letter of Credit	\$ 0.00	\$ 284,306.21	\$ 284,306.21	\$ 0.00

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 38,800,000.00	\$ 0.00	\$ 1,085,000.00	\$ 37,715,000.00	\$ 1,120,000.00
Certificates of Participation	20,688,333.36		513,333.36	20,175,000.00	545,000.00
Add Issuance Premium	93,183.05		3,106.10	90,076.95	
Total Revenue Bonds and Certificates of Participation Payable	59,581,516.41		1,601,439.46	57,980,076.95	1,665,000.00
Notes Payable	6,334,915.00		544,915.00	5,790,000.00	190,000.00
Compensated Absences	2,924,688.52	2,113,444.00	1,927,736.52	3,110,396.00	388,278.00
Total Long-Term Liabilities	\$ 68,841,119.93	\$ 2,113,444.00	\$ 4,074,090.98	\$ 66,880,472.95	\$ 2,243,278.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation 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, 2013	Principal Outstanding June 30, 2013	See Table Below
Revenue Bonds Payable							
Dormitory System							
Cypress Hall Project	2010A	3.00-4.00% **	03/01/2017	\$ 2,455,000.00	\$ 770,000.00	\$ 1,685,000.00	(1)
Cypress Hall Project	2010B	4.525-6.623% **	03/01/2042	18,435,000.00		18,435,000.00	(1)
Student Housing - Courtyard Apartments	2001A	3.97%*swap	07/01/2031	11,385,000.00	1,605,000.00	9,780,000.00	(2)
Total Dormitory System				<u>32,275,000.00</u>	<u>2,375,000.00</u>	<u>29,900,000.00</u>	
Auxiliaries							
Recreational Facilities	2006B	3.75%-5.00%	09/25/2020	816,940.00	315,000.00	501,940.00	
Dining System	2006B	3.75%-5.00%	09/25/2015	518,060.00	315,000.00	203,060.00	
University Center Expansion Supplement	2006B	3.75%-5.00%	09/25/2026	1,965,000.00	430,000.00	1,535,000.00	
University Center Renovations	2003B	2.00%-4.75%	03/10/2028	3,100,000.00	914,705.87	2,185,294.13	
Auxiliary Services Building	2003B	2.00%-4.75%	03/10/2028	1,550,000.00	457,352.95	1,092,647.05	
Recreational Facilities	2003B	2.00%-4.75%	03/10/2028	620,000.00	182,941.18	437,058.82	
Multipurpose Facility Athletic Field House	2008A	3.00%-5.00%	10/01/2033	2,055,000.00	195,000.00	1,860,000.00	
Total Auxiliaries				<u>10,625,000.00</u>	<u>2,810,000.00</u>	<u>7,815,000.00</u>	
Certificates of Participation							
University Village Apartments	2004	3.50-5.00%	03/01/2034	9,540,000.00	1,810,000.00	7,730,000.00	(1)
Oak Hall Project	2006	4.00-5.00%	03/01/2037	13,770,000.00	1,325,000.00	12,445,000.00	(1)
Total Certificates of Participation				<u>23,310,000.00</u>	<u>3,135,000.00</u>	<u>20,175,000.00</u>	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				<u>\$ 66,210,000.00</u>	<u>\$ 8,320,000.00</u>	57,890,000.00	
Plus: Unamortized Premium						<u>90,076.95</u>	
Total Revenue Bonds Payable and Certificates of Participation						<u>\$ 57,980,076.95</u>	

* For variable rate debt, interest rates in effect at June 30, 2013 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
	Housing Revenues (Village, Oak, and					
(1)	Cypress	\$ 75,540,687.12	\$ 3,539,248.96	\$ 903,333.33	\$ 2,135,600.02	53%
(2)	Housing Revenues (Courtyard)	\$ 13,118,796.47	\$ 1,128,934.93	\$ 270,000.00	\$ 391,897.84	29%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. **Demand Bonds** - Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University’s remarketing or paying agents.

With regards to the following demand bond, the University has entered into a take-out agreement, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The UNCP Foundation Project, Series 2001A: On January 1, 2001, the University issued tax-exempt adjustable mode demand bonds in the amount of \$11,385,000 that have a final maturity date of July 1, 2031. The bonds are subject to mandatory sinking fund redemption that began on July 1, 2003. The proceeds of this issuance were used for the construction of the Courtyard Apartment student housing complex. The bonds are subject to purchase on demand with seven days’ notice and delivery to the University’s remarketing agent, Wells Fargo Bank, National Association.

Under an irrevocable letter of credit issued by Wells Fargo, National Association, the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of 1.2% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wells Fargo, National Association in which it has agreed that upon the termination of the letter of credit or upon a bond tender event to repay all amounts that are drawn under the letter of credit. Interest at the rate of prime plus 1% for the first 90 days will be incurred. At June 30, 2013, no drawings had been made under the letter of credit.

If the remarketing agent is unable to resell any bonds that are “put” within 90 days of the “put” date, the University has a take-out agreement with Wells Fargo Bank, National Association to convert the amount of bonds “put” to an installment loan payable over a five-year period bearing an adjustable interest rate equal to the bank’s prime lending rate plus 1.5%. The take-out agreement expires on letter of credit expiration date. Per the take-out agreement, the structure of the installment loan cannot allow the bond principal to be retired faster than originally prescribed in the bond indenture amortization schedule. If the take-out agreement were to be exercised because the demand bond principal balance of \$9,780,000 was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

“put” and not resold, the University would be required to pay the amounts referenced in the table below assuming a 4.75% interest rate.

<u>Fiscal Year</u>	<u>Potential Annual Requirements</u>	
	<u>Installment Loan Payable @ 4.75%</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 285,000.00	\$ 464,550.00
2015	305,000.00	451,012.50
2016	325,000.00	436,525.00
2017	340,000.00	421,087.50
2018	365,000.00	404,937.50
2019-2023	2,180,000.00	1,743,250.00
2024-2028	2,930,000.00	1,158,050.00
2029-2033	3,050,000.00	372,875.00
Total Requirements	\$ 9,780,000.00	\$ 5,452,287.50

The letter of credit automatically extends every year. The letter of credit bank must give 180 days advance cancellation. As of June 30, 2013, the letter of credit expires on December 31, 2014.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Revenue Bonds Payable</u>			<u>Certificates of Participation</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,120,000.00	\$ 1,523,025.74	\$ 353,198.66	\$ 545,000.00	\$ 899,057.26	\$ 190,000.00	\$ 288,641.00
2015	1,180,000.00	1,493,269.74	343,144.35	560,000.00	878,457.26	283,300.00	286,158.00
2016	1,225,000.00	1,457,419.74	320,892.24	580,000.00	856,976.26	408,610.00	198,541.00
2017	1,200,000.00	1,427,477.24	292,942.28	610,000.00	832,738.76	434,058.00	183,853.00
2018	1,260,000.00	1,392,740.24	265,656.25	630,000.00	808,163.76	462,188.00	168,211.00
2019-2023	7,020,000.00	6,347,190.20	1,006,744.38	3,580,000.00	3,619,948.80	1,590,913.00	626,695.00
2024-2028	8,455,000.00	5,135,894.70	565,816.45	4,455,000.00	2,749,569.30	1,862,765.00	309,648.00
2029-2033	7,300,000.00	3,867,311.70	121,530.86	5,575,000.00	1,633,031.30	558,166.00	16,523.00
2034-2038	4,625,000.00	2,544,010.46		3,640,000.00	394,937.54		
2039-2043	4,330,000.00	730,274.00					
Total Requirements	\$ 37,715,000.00	\$ 25,918,613.76	\$ 3,269,925.47	\$ 20,175,000.00	\$ 12,672,880.24	\$ 5,790,000.00	\$ 2,078,270.00

Interest on the variable rate 2001A revenue bonds is calculated at 0.06% at June 30, 2013
Interest rates are reset weekly by the remarketing agent based upon the LLC's credit rating and market conditions.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 9 Derivative Instrument.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. 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, 2013, the outstanding balance of prior year defeased bonds was \$745,000.00.

F. 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, 2013	Principal Outstanding June 30, 2013
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	\$ 4,500,000.00	\$ 0.00	\$ 4,500,000.00
Refunding Series 1998B Bonds	BB&T Bank	3.19%	10/01/2018	1,470,000.00	180,000.00	1,290,000.00
Total Notes Payable				\$ 5,970,000.00	\$ 180,000.00	\$ 5,790,000.00

In June 2007, the University Foundation entered into a loan agreement with a charitable remainder trust ("the trust"). The terms of the agreement require quarterly payments of interest only of \$9,375 from December 31, 2007, for 120 quarters or such time as the trust property of the trust is distributed to the University Foundation. The University Foundation is the sole beneficiary of the trust. The University Foundation has elected not to record the loan on its Statement of Net Position because the loan is part of the trust which reverts back to the University Foundation.

NOTE 9 - DERIVATIVE INSTRUMENT

The derivative instrument held at June 30, 2013, is as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2013	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
<i>Hedging Derivative Instrument</i>					
<i>Cash Flow Hedge</i>					
Pay fixed, receivable variable interest rate swap for 2001A Bonds	\$ 9,780,000	Deferred Outflow of Resources	\$ 240,169.01	Hedging Derivative	\$ (2,550,592.99)
Total Derivative Instruments			\$ 240,169.01		\$ (2,550,592.99)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The hedging derivative instrument held at June 30, 2013, is as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-fixed, receive variable interest rate swap	Hedge Cash Flows for 2001A Bonds	\$ 9,780,000	11/01/01	07/01/31	Pay 3.955%, Receive 67% of 1-month USD- LIBOR-BBA

The fair value of the pay-fixed, receive-variable interest rate swap was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Interest Rate Risk: The University Foundation is exposed to interest rate risk on the interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. As the London Interbank Offered Rate (LIBOR) increases, the University Foundation's net payment on the swap increases.

Basis Risk: The University Foundation is exposed to basis risk on the pay fixed interest rate swap because the variable-rate payments received by the University on the hedging derivative is based on a different rate than the University Foundation pays on its 2001A Series variable rate debt. As of June 30, 2013, the interest rate on the University Foundation's pay-fixed interest rate swap is benchmarked to 67% of 1 month LIBOR, which is 0.13%. The variable-interest rate paid on the University Foundation's 2001A Series variable rate debt is not benchmarked to a reference rate but is reset weekly by the remarketing agent based upon market conditions and the University Foundation's credit rating. At June 30, 2013, the interest rate upon the demand bond was 0.06%.

Termination Risk: The University Foundation or its counterparty may terminate the pay-fixed, receive-variable interest rate swap if the other party fails to perform under the terms of the contract.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for land and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 231,040.84
2015	18,945.22
Total Minimum Lease Payments	\$ 249,986.06

Rental expense for all operating leases during the year was \$236,996.00.

NOTE 11 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles*</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 29,579,594.82	\$ 29,198.20	\$ 8,713,140.34	\$ 348,226.52	\$ 20,489,029.76
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 8,186,440.79	\$ 93,237.00	\$ 2,372,845.40	\$ 0.00	\$ 5,720,358.39
Dining	4,533,841.89	83,827.95	1,297,623.28		3,152,390.66
Student Union Services	32,548.79	6,656.92			25,891.87
Health, Physical Education, and Recreation Services	1,970,626.44		409,695.15		1,560,931.29
Bookstore	3,915,908.16	117,457.43	637,634.90		3,160,815.83
Parking	300,923.98			132,005.00	168,918.98
Athletic	175,852.55	6,169.36			169,683.19
Motor Pool	288,756.51	241,972.53			46,783.98
Central Stores	11,242.87	7,107.26			4,135.61
Laundry	16,025.44				16,025.44
Lyceum	122,246.93	1,635.00			120,611.93
Physical Plant	129,533.42	107,582.40			21,951.02
Print Shop	403,581.32	371,451.42			32,129.90
Vending	66,809.89				66,809.89
Sales and Services of Education and Related Activities	<u>472,102.58</u>	<u>47,250.70</u>			<u>424,851.88</u>
Total Sales and Services	<u>\$ 20,626,441.56</u>	<u>\$ 1,084,347.97</u>	<u>\$ 4,717,798.73</u>	<u>\$ 132,005.00</u>	<u>\$ 14,692,289.86</u>

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - 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	\$ 32,356,787.85	\$ 1,070,818.59	\$ 1,237,208.02	\$ 5,560.00	\$ 682.31	\$ 0.00	\$ 34,671,056.77
Research	332,085.57	49,009.01	96,068.38				477,162.96
Public Service	1,225,457.31	58,280.79	440,029.09	600.00			1,724,367.19
Academic Support	8,146,733.09	2,432,359.18	1,803,160.12	1,899.05			12,384,151.44
Student Services	3,831,758.64	1,385,477.20	1,779,205.52	250.00			6,996,691.36
Institutional Support	8,318,080.94	446,542.95	1,960,414.97				10,725,038.86
Operations and Maintenance of Plant	5,634,755.47	116,148.57	1,553,623.91		2,147,371.90		9,451,899.85
Student Financial Aid			8,587.63	9,868,586.69			9,877,174.32
Auxiliary Enterprises	4,539,258.56	4,557,017.64	9,957,709.49		1,685,805.61		20,739,791.30
Depreciation						5,043,105.99	5,043,105.99
Total Operating Expenses	\$ 64,384,917.43	\$ 10,115,653.93	\$ 18,836,007.13	\$ 9,876,895.74	\$ 3,833,859.82	\$ 5,043,105.99	\$ 112,090,440.04

NOTE 13 - 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 (TSERS) 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. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$50,134,987.02, of which \$23,946,233.50 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,994,721.25 and \$1,436,774.01, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$1,994,721.25, \$1,777,703.29, and \$1,177,679.00, 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 TSERS. 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, 2013, 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 \$50,134,987.02, of which \$20,401,044.47 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,395,431.44 and \$1,224,062.67, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code Section 457 Plan - The State of North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$252,769.10 for the year ended June 30, 2013.

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, 2013, were \$33,697.13. The voluntary contributions by employees amounted to \$279,500.63 for the year ended June 30, 2013.

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 \$721,131.17 for the year ended June 30, 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the University contributed 5.30% 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, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$2,350,405.73, \$2,194,917.59, and \$2,177,439.00, 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 STATEMENTS (CONTINUED)

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, 2013, the University made a statutory contribution of .44% 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, 2012, and 2011, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$195,128.02, \$228,271.43, and \$231,075.00, 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 15 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. The University also purchased through the Fund all risk coverage for auxiliary buildings and contents.

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

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

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 STATEMENTS (CONTINUED)

NOTE 16 - COMMITMENTS

- 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 \$1,194,077.00 and on other purchases were \$2,714,623.13 at June 30, 2013.
- B. Pending Litigation and Claims** - The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2013, is presented as follows:

Condensed Statement of Net Position June 30, 2013

	The University of North Carolina at Pembroke Foundation Inc. and Subsidiaries	Eliminations	Total
ASSETS			
Current Assets	\$ 4,725,866.71	\$ (1,847,777.00)	\$ 2,878,089.71
Capital Assets	9,927,012.62		9,927,012.62
Other Noncurrent Assets	46,876,665.96	(39,350,000.00)	7,526,665.96
Total Assets	61,529,545.29	(41,197,777.00)	20,331,768.29
Deferred Outflows of Resources	2,550,592.99		2,550,592.99
LIABILITIES			
Current Liabilities	1,974,614.83		1,974,614.83
Noncurrent Liabilities	53,091,712.70	(1,606,042.76)	51,485,669.94
Total Liabilities	55,066,327.53	(1,606,042.76)	53,460,284.77
NET POSITION			
Net Investment in Capital Assets	147,012.62		147,012.62
Restricted - Nonexpendable	3,183,494.00		3,183,494.00
Restricted - Expendable	4,675,889.19		4,675,889.19
Unrestricted	1,007,414.94	(43,122,894.00)	(42,115,479.06)
Total Net Position	\$ 9,013,810.75	\$ (43,122,894.00)	\$ (34,109,083.25)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

***Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013***

	The University of North Carolina at Pembroke Foundation Inc. and Subsidiaries	Eliminations	Total
OPERATING REVENUES			
Sales and Services, Net	\$ 3,959,859.33	\$ (3,959,859.33)	\$ 0.00
Other Operating Revenue	129,295.81	(129,109.39)	186.42
Total Operating Revenues	<u>4,089,155.14</u>	<u>(4,088,968.72)</u>	<u>186.42</u>
OPERATING EXPENSES			
Operating Expenses	863,386.69	(257,429.00)	605,957.69
Depreciation	317,599.79		317,599.79
Total Operating Expenses	<u>1,180,986.48</u>	<u>(257,429.00)</u>	<u>923,557.48</u>
Operating Income	<u>2,908,168.66</u>	<u>(3,831,539.72)</u>	<u>(923,371.06)</u>
NONOPERATING REVENUES (EXPENSES)			
Noncapital Gifts	460,677.00		460,677.00
Other Nonoperating Revenue	370,873.77		370,873.77
Interest and Fees on Debt	(2,142,645.60)		(2,142,645.60)
Other Nonoperating Expense	(651,807.54)	400,379.96	(251,427.58)
Net Nonoperating Revenues (Expenses)	<u>(1,962,902.37)</u>	<u>400,379.96</u>	<u>(1,562,522.41)</u>
Additions to Endowments	175,516.00		175,516.00
Increase in Net Position	<u>1,120,782.29</u>	<u>(3,431,159.76)</u>	<u>(2,310,377.47)</u>
NET POSITION			
Net Position, July 1, 2012	<u>7,893,028.46</u>	<u>(39,691,734.24)</u>	<u>(31,798,705.78)</u>
Net Position, June 30, 2013	<u>\$ 9,013,810.75</u>	<u>\$ (43,122,894.00)</u>	<u>\$ (34,109,083.25)</u>

***Condensed Statement of Cash Flows
June 30, 2013***

	The University of North Carolina at Pembroke Foundation Inc. and Subsidiaries	Eliminations	Total
Net Cash Provided by Operating Activities	\$ 4,016,374.16	\$ 3,831,539.72	\$ 184,834.44
Net Cash Provided by Noncapital Financing Activities	323,770.48		323,770.48
Net Cash Used by Capital and Related Financing Activities	(4,420,049.30)	400,379.96	(4,820,429.26)
Net Cash Used by Investing Activities	(466,074.90)		(466,074.90)
Net Decrease in Cash and Cash Equivalents	<u>(545,979.56)</u>	<u>\$ 4,231,919.68</u>	<u>\$ (4,777,899.24)</u>
Cash and Cash Equivalents, July 1, 2012	<u>1,473,258.79</u>		
Cash and Cash Equivalents, June 30, 2013	<u>\$ 927,279.23</u>		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University is party to a capital lease agreement with the University Foundation, with an outstanding balance of \$40,295,000.00 at June 30, 2013. The Condensed Statement of Net Position for the University Foundation includes the elimination of the current capital lease receivable in the amount of \$945,000.00, \$144,200 for the elimination of an operating lease, and \$758,577 for accrued interest receivable from the University. Also the noncurrent capital lease receivable totaling \$39,350,000.00 was eliminated from the University Foundation. Consequently, the equal and corresponding current and noncurrent portions of these receivables were eliminated from the University's books when blended. Other transactions, such as capital lease income from the University, were also eliminated in the table above.

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2013, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

GASB Statement No. 61 sets forth additional requirements for identifying component units, blending identified component units, presenting condensed combining information for blended component units, and accounting for certain equity interests.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

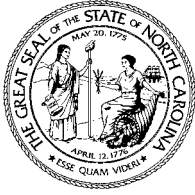
GASB Statement No. 65 provides guidance to reclassify certain assets and liabilities as deferred inflows of resources or deferred outflows of resources.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 19 - NET POSITION RESTATEMENTS

As of July 1, 2012, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2012 Net Position as Previously Reported	\$ 137,477,211.07
Restatements:	
Presentation Clarification: To change presentation of the UNCP Foundation Inc. and its wholly owned subsidiaries. This component unit was previously presented as a discrete component unit. However, clarification in GASB 61 requires blended inclusion of the component unit.	7,893,028.46
Error Correction: To correct error of Capital Lease payable amount	65,305.41
Error Correction: To correct error of Endowment Investments balance	<u>(5,079.00)</u>
July 1, 2012 Net Position as Restated	<u><u>\$ 145,430,465.94</u></u>

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The 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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 9, 2013. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Pembroke Foundation Inc. and Subsidiaries, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

**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)**

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 9, 2013

ORDERING INFORMATION

Copies of this report 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

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes
Director of External Affairs