

# **STATE OF NORTH CAROLINA**

## **THE UNIVERSITY OF NORTH AT PEMBROKE**

**PEMBROKE, NORTH CAROLINA**

### **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2009**

#### **BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

**ERSKINE B. BOWLES, PRESIDENT**

#### **BOARD OF TRUSTEES**

**DR. FREDA PORTER, CHAIRMAN**

#### **ADMINISTRATIVE OFFICERS**

**DR. CHARLES R. JENKINS, CHANCELLOR**

**R. NEIL HAWK, VICE CHANCELLOR FOR BUSINESS AFFAIRS**

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

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**INTRODUCTION**

The following discussion and analysis is provided by The University of North Carolina at Pembroke's (the University) financial management as an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes between fiscal years 2009 and 2008, as well as pertinent facts, decisions, and conditions.

**USING THE FINANCIAL STATEMENTS**

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

The Statement of Net Assets provides information relative to the University's assets, liabilities, and net assets as of the last day of the fiscal year. It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Assets and liabilities on this statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year and are anticipated to be used to pay for current liabilities. Current liabilities are those payable in the next fiscal year. Net assets on this statement are categorized as invested in capital assets (net of related debt), restricted or unrestricted. Restricted net assets are categorized as expendable or nonexpendable for the purpose noted. Overall, the Statement of Net Assets provides information relative to the financial strength of the University and its ability to meet current and long-term obligations.

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

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Assets.

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

### **COMPARISON OF TWO-YEAR DATA FOR 2009 TO 2008**

Comparative financial data of 2009 to 2008 is summarized in Table 1. Discussion of comparative data is included in the following section.

#### **Analysis of Overall Financial Position – Statement of Net Assets**

Total assets decreased by \$6,736,548 or 4% from the prior year. Current assets decreased by \$4,692,828 or 19.18%. Other noncurrent assets decreased by \$1,795,350 or 12.29% from the previous year.

The continuing economic decline has impacted the University and can be seen in the decrease of current and noncurrent assets, as well as the fair market value of investments. The cash carry forward approved by the Office of State Budget and Management decreased by \$1,686,032 or 62.55% from the previous year. The management flexibility portion of the carry forward was not approved for fiscal year 2009 but was \$1,328,466 in fiscal year 2008. Most of the projects funded by State general obligation bonds have been completed resulting in a decrease in the University's cash balance of \$2,403,226 or 65.67% from the previous year.

Total liabilities decreased by \$1,665,809 or 2.95% from the previous year. Current liabilities decreased by \$259,617 or 4.55% while noncurrent liabilities decreased by \$1,406,192 or 2.77%. The decline in liabilities is a reflection of a reduction in purchasing mandated by the Office of State Budget and Management, the University's continuing effort to process vendor payments timely to ensure good vendor relations, and processing invoices to take advantage of discounts for early payment. Overall net assets decreased by \$5,070,739 or 4.53% from fiscal year 2008 to fiscal year 2009. As stated earlier many of the projects funded by State

general obligation bonds have been completed resulting in a decrease of bond proceeds and a decrease in net assets from the previous year.

Restricted expendable net assets consist of income from endowment funds, gifts, pledges with specific restrictions, and grants from third party agencies with expenditure restrictions. Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the principal given and certain loan funds. Unrestricted net assets consist primarily of University and student auxiliaries, scholarship funds from unrestricted sources, and overhead receipts balances.

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 \$1,188,853. Programs supported by endowments include scholarships, professorships, and various other programs and activities.

#### **Analysis of Results of Operations - Statement of Revenues, Expenses, and Changes in Nets Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets shows that operating revenues decreased by \$5,903,332 or 13.45% over the previous year. Grants and contracts decreased by \$7,929,200 or 70.47% resulting from a reporting change by the American Institute of Certified Public Accountants (AICPA). The AICPA State and Local Government Audit Guide states that federal grants including Pell, SEOG and College Work Study should be reported as nonoperating revenues instead of operating revenues. Sales and services revenues increased by \$862,250 or 6.23% from the previous year due to an increase in student enrollment and an increase in athletic revenue from continuing popularity of the football program.

Operating expenses decreased by \$2,686,135 or 2.49% from the previous year reflecting decreases in spending resulting from reduced state appropriations and required spending reductions issued by the Office of State Budget and Management. Salaries and benefit expenses increased by \$5,287,232 or 9.77% reflecting a legislative increase approved by the State and increases in employer expenses for retirement and health insurance. Supplies and materials decreased from \$14,336,474 to \$7,891,174 or 44.96% and service expenses decreased from \$22,439,471 to \$20,532,658 or 8.5%. The reduction in operating expenses is a reflection of the impact of the economy on University operations.

Final adjusted State appropriation for fiscal year 2009 was \$60,274,185 but due to budget restrictions and reversions the net appropriation was \$52,256,633 which includes Federal Recovery Funds of \$1,808,539. Net appropriation for fiscal year 2008 was \$57,624,051.

Total operating loss for 2009 was \$67,246,389. Since the State of North Carolina appropriation is not included within operating revenue per Governmental Accounting Standards Board Statement No. 35, the University shows a significant operating loss.

The University has successfully sought a balance between increasing performance and service while reducing the overall cost of providing the service. Operating expenses totaling \$105,248,826 include salaries and benefits of \$59,377,050, supplies and materials of \$7,891,174 services of \$20,532,658, scholarships and fellowships of \$7,492,803, utilities of \$3,999,851, and depreciation of \$5,955,290.

**Analysis of Statement of Cash Flows**

Cash flows from operating activities decreased by \$3,053,889 or 5.27%. The decrease reflects a reporting change by the AICPA for reporting federal grants including Pell, SEOG and College Work Study from operating revenues to nonoperating revenue which resulted in a decrease to sources of cash. A reduction in uses of cash resulted from a reduction in payments to vendors and suppliers due to the State’s economic condition. An increase in salary and benefit payments reflecting a legislative increase and higher employer payments for medical premiums and retirement benefits resulted in an increase in the use of cash. Cash flows from noncapital financing activities increased by \$6,164,628 or 10.66% as a result of the change for reporting federal grants. Cash flows from capital financing activities decreased by \$7,152,991 or 787.52% representing a decrease in sources of cash from the State’s general obligation bonds, capital appropriations and no new debt issued during the year.

**COMPARATIVE SUMMARY OF REVENUES BY CLASS**

**THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE  
OPERATING REVENUES**

	<u>JUNE 30, 2009</u>	<u>JUNE 30, 2008</u>
Student Tuition and Fees (Net)	\$ 19,614,674	\$ 18,038,017
Federal Grants and Contracts	2,820,872	10,432,579
State and Local Grants and Contracts	405,523	769,624
Nongovernmental Grants and Contracts	96,368	49,760
Sales and Services (Net)	14,697,312	13,835,062
Other Operating Revenues	<u>367,688</u>	<u>780,727</u>
<b>Total Operating Revenues</b>	<u>\$ 38,002,437</u>	<u>\$ 43,905,769</u>

**COMPARATIVE SUMMARY OF EXPENSES BY FUNCTIONAL CLASSIFICATION**

**THE UNIVERSITY OF NORTH CAROLINA AT  
PEMBROKE  
OPERATING EXPENSE**

	<u><b>JUNE 30, 2009</b></u>	<u><b>JUNE 30, 2008</b></u>
Instruction	\$ 33,755,311	\$ 32,385,441
Research	222,805	302,265
Public Service	2,412,456	2,158,545
Academic Support	10,399,541	11,024,790
Student Services	6,800,273	6,640,417
Institutional Support	9,054,988	10,348,509
Operations & Maintenance of Plant	12,496,858	14,252,797
Student Financial Aid	7,610,071	7,686,607
Auxiliary Enterprises	16,541,233	17,603,140
Depreciation	<u>5,955,290</u>	<u>5,532,450</u>
<b>Total Operating Expenses</b>	<u><u>\$ 105,248,826</u></u>	<u><u>\$ 107,934,961</u></u>

## COMPARATIVE SUMMARY OF EXPENSES BY CLASS

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

	<u>JUNE 30, 2009</u>	<u>JUNE 30, 2008</u>
Salaries and Benefits	\$ 59,377,050	\$ 54,089,818
Supplies and Materials	7,891,174	14,336,474
Services	20,532,658	22,439,471
Scholarships and Fellowships	7,492,803	7,616,689
Utilities	3,999,851	3,920,059
Depreciation	<u>5,955,290</u>	<u>5,532,450</u>
<b>Total Operating Expenses</b>	<u>\$ 105,248,826</u>	<u>\$ 107,934,961</u>

### ANALYSIS OF NET ASSET BALANCES

At June 30, 2009, the gross value of plant assets was \$167,865,843. Accumulated depreciation was \$38,810,396 and related plant asset debt was \$44,994,012.

Restricted expendable net assets totaled \$5,024,374 and restricted nonexpendable net assets totaled \$8,751,864 both representing amounts subject to externally imposed restrictions.

Unrestricted net assets totaled \$8,660,576 representing amounts not subject to externally imposed stipulations but internally designated for various activities and initiatives, including future construction projects.

### CAPITAL ASSETS AND LONG - TERM DEBT

The University expended \$878,327 during the year for capital equipment, \$3,591,694 for construction of new buildings and \$941,702 for infrastructure.

At June 30, 2009, outstanding commitments on construction contracts were \$3,868,001 while outstanding commitments related to capital purchase orders for fixed and movable equipment totaled \$266,748.

At June 30, 2009, the University had outstanding bond indebtedness in the amount of \$11,710,000 of which \$640,000 is due within the next year, capital leases payable of \$32,977,319 of which \$635,557 is due within the next year and notes payable of \$306,693 of which \$99,950 is due within the next year.

During the past year construction on the Football and Multipurpose Facility and the Biotechnology building was completed and moved from construction in progress. Projects in the construction phase include the Nursing building and the Water Tower. The West Hall building is in the planning and design phase.

Repair and renovation funds are being used for numerous small capital projects. Many of these projects are infrastructure type projects that are needed to support the growing number of students, faculty, staff, and facilities.

### **ENROLLMENT ACTIVITIES**

The University's enrollment exceeded 6,000 students for fiscal year ending June 30, 2009. Total headcount increased by 366 students from fiscal year 2008 to fiscal year 2009 with a corresponding 6.16% increase.

#### **THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE TOTAL FALL ENROLLMENT 2000 - 2009**

<u>FISCAL YEAR</u>	<u>FULL TIME EQUIVALENT</u>	<u>HEAD COUNT</u>
2000	2,611	3,059
2001	2,897	3,471
2002	3,328	3,975
2003	3,768	4,390
2004	4,110	4,698
2005	4,320	4,997
2006	4,841	5,575
2007	4,950	5,786
2008	5,150	5,937
2009	5,415	6,303

### **PAYROLL PROJECT**

The University in coordination with the University of North Carolina General Administration and SunGard Higher Education is developing a new University Payroll system. The University of North Carolina General Administration will house a Shared Services office and will assume the responsibilities previously performed by the Office of the State Controller's Central Payroll staff. A committee has been established consisting of University staff, University of North Carolina General Administration staff and SunGard Higher Education consultants to work on reporting, technical and functional issues and to clarify University departmental and organizational processes. The committee will also determine specific duties of University and Shared Services employees related to Payroll processing and subsequent reporting. The Payroll project began in fiscal year 2008 and is expected to be fully implemented during fiscal year 2009.

### **ECONOMIC FACTORS AND FUTURE OPERATIONS**

Funding for higher education in 2009 was reduced and the outlook for 2010 does not show significant improvement. The initial budget included a moderate increase in salaries for University faculty and staff. However, in April a pay cut was ordered for state workers including University employees equal to one-half of 1% of their annual salary due to the State budget crisis. We are hopeful that the economic outlook will improve in the coming years.

The University is dependent on State appropriations and State agencies have once again been asked to review budgets for possible reductions during the current fiscal year. We are hopeful that enrollment will continue to increase for the University and that increase will bring more faculty and staff along with increased operating budgets. During the past year student enrollment, bookstore sales, and food service revenue increased at a slower rate than in previous years.

State funding for repairs and renovations decreased during the past year but we are hopeful that the State budget will improve and funding will be available to adequately maintain University facilities. Additional funding is necessary to ensure that our capital maintenance program meets the University objective of having well maintained facilities that will ensure the safety of staff and students. We look for this pool of funding to increase in the future.

The fair market value of the University's professionally managed endowment decreased 16.44% for the period July 1, 2008, through June 30, 2009. The change is primarily due to the unrealized loss on these investments as a result of the volatile and unstable world-wide financial market. Recent market data are showing signs that the economy is beginning to recover. University and Foundation management, along with their investment management advisors, plan to continue their efforts of monitoring these investments to minimize any significant losses.

**UNIVERSITY OF NORTH CAROLINA AT PEMBROKE**  
**TABLE 1 - SUMMARY OF CONDENSED FINANCIAL STATEMENTS TOTALS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008**

	<b>FY09</b>	<b>FY08</b>	<b>INCREASE/ DECREASE</b>	<b>PERCENT CHANGE</b>
<b>STATEMENTS OF NET ASSETS</b>				
Current Assets	\$ 19,771,931	\$ 24,464,759	\$ (4,692,828)	-19.18%
Capital Assets, Net	129,055,447	129,303,817	(248,370)	-0.19%
Other Noncurrent Assets	12,810,010	14,605,360	(1,795,350)	-12.29%
<b>TOTAL ASSETS</b>	<b>161,637,388</b>	<b>168,373,936</b>	<b>(6,736,548)</b>	<b>-4.00%</b>
Current Liabilities	5,444,605	5,704,222	(259,617)	-4.55%
Noncurrent Liabilities	49,387,841	50,794,033	(1,406,192)	-2.77%
<b>TOTAL LIABILITIES</b>	<b>54,832,446</b>	<b>56,498,255</b>	<b>(1,665,809)</b>	<b>-2.95%</b>
Invested in Capital Assets, Net of Related Debt Restricted	84,368,128	83,441,817	926,311	1.11%
Expendable	5,024,374	7,648,759	(2,624,385)	-34.31%
Nonexpendable	8,751,864	7,156,792	1,595,072	22.29%
Unrestricted	8,660,576	13,628,313	(4,967,737)	-36.45%
<b>TOTAL NET ASSETS</b>	<b>\$ 106,804,942</b>	<b>\$ 111,875,681</b>	<b>\$ (5,070,739)</b>	<b>-4.53%</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>				
Student Tuition and Fees, Net	\$ 19,614,674	\$ 18,038,017	\$ 1,576,657	8.74%
Grants and Contracts	3,322,763	11,251,963	(7,929,200)	-70.47%
Sales and Services, Net	14,697,312	13,835,062	862,250	6.23%
Other Operating Revenues	367,688	780,727	(413,039)	-52.90%
<b>TOTAL OPERATING REVENUES</b>	<b>38,002,437</b>	<b>43,905,769</b>	<b>(5,903,332)</b>	<b>-13.45%</b>
Salaries and Benefits	59,377,050	54,089,818	5,287,232	9.77%
Supplies and Materials	7,891,174	14,336,474	(6,445,300)	-44.96%
Services	20,532,658	22,439,471	(1,906,813)	-8.50%
Scholarships and Fellowships	7,492,803	7,616,689	(123,886)	-1.63%
Utilities	3,999,851	3,920,059	79,792	2.04%
Depreciation	5,955,290	5,532,450	422,840	7.64%
<b>TOTAL OPERATING EXPENSES</b>	<b>105,248,826</b>	<b>107,934,961</b>	<b>(2,686,135)</b>	<b>-2.49%</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(67,246,389)</b>	<b>(64,029,192)</b>	<b>(3,217,197)</b>	<b>5.02%</b>
State Appropriations	50,448,094	57,624,051	(7,175,957)	-12.45%
State Aid - Federal Recovery Funds	1,808,539	0	1,808,539	100.00%
Noncapital Grants and Gifts	10,243,346	1,372,074	8,871,272	646.56%
Other Nonoperating Expenses, Net	(3,222,712)	(1,719,992)	(1,502,720)	87.37%
<b>NET NONOPERATING REVENUES</b>	<b>59,277,267</b>	<b>57,276,133</b>	<b>2,001,134</b>	<b>3.49%</b>
Capital Grants	2,219,170	4,521,194	(2,302,024)	-50.92%
Refund of Prior Years Capital Appropriations	(584,640)	0	(584,640)	-100.00%
Capital Appropriations	75,000	1,606,000	(1,531,000)	-95.33%
Additions to Permanent Endowments	1,188,853	433,656	755,197	174.15%
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(5,070,739)</b>	<b>(192,209)</b>	<b>(4,878,531)</b>	<b>2538.13%</b>
<b>NET ASSETS-BEGINNING OF YEAR</b>	<b>111,875,681</b>	<b>111,965,066</b>	<b>(89,385)</b>	<b>-0.08%</b>
<b>NET ASSET RESTATEMENT</b>	<b>0</b>	<b>102,824</b>	<b>(102,824)</b>	<b>-100.00%</b>
<b>NET ASSETS-END OF YEAR</b>	<b>\$ 106,804,942</b>	<b>\$ 111,875,681</b>	<b>\$ (5,070,739)</b>	<b>-4.53%</b>

*The University of North Carolina at Pembroke*  
*Statement of Net Assets*  
*For the Fiscal Year Ended June 30, 2009*

*Exhibit A-1*

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 11,709,635
Restricted Cash and Cash Equivalents	2,955,238
Receivables, Net (Note 4)	2,925,192
Inventories	1,826,412
Notes Receivable, Net (Note 4)	355,454
	<hr/>
Total Current Assets	19,771,931
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	3,850,032
Receivables, Net (Note 4)	96,816
Restricted Due from Primary Government	26,666
Endowment Investments	7,895,919
Other Investments	52,381
Notes Receivable, Net (Note 4)	888,196
Capital Assets - Nondepreciable (Note 5)	3,948,822
Capital Assets - Depreciable, Net (Note 5)	125,106,625
	<hr/>
Total Noncurrent Assets	141,865,457
	<hr/>
Total Assets	161,637,388

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	2,771,924
Due to Primary Government	337,663
Unearned Revenue	535,296
Interest Payable	145,880
Long-Term Liabilities - Current Portion (Note 8)	1,653,842
	<hr/>
Total Current Liabilities	5,444,605
Noncurrent Liabilities:	
Deposits Payable	234,008
Funds Held for Others	1,410,289
U. S. Government Grants Refundable	1,290,033
Long-Term Liabilities (Note 8)	46,453,511
	<hr/>
Total Noncurrent Liabilities	49,387,841
	<hr/>
Total Liabilities	54,832,446

*The University of North Carolina at Pembroke*  
*Statement of Net Assets*  
*For the Fiscal Year Ended June 30, 2009*

*Exhibit A-1*  
*Page 2*

<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	84,368,128
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,883,613
Endowed Professorships	4,475,423
Departmental Uses	149,293
Loans	243,535
Expendable:	
Scholarships and Fellowships	(34,095)
Endowed Professorships	(365,472)
Departmental Uses	1,438,698
Capital Projects	3,985,243
Unrestricted	8,660,576
Total Net Assets	<u>\$ 106,804,942</u>

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

***The University of North Carolina at Pembroke  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2009***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 19,614,674
Federal Grants and Contracts	2,820,872
State and Local Grants and Contracts	405,523
Nongovernmental Grants and Contracts	96,368
Sales and Services, Net (Note 10)	14,697,312
Interest Earnings on Loans	11,948
Other Operating Revenues	355,740
	<hr/>
Total Operating Revenues	38,002,437

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	59,377,050
Supplies and Materials	7,891,174
Services	20,532,658
Scholarships and Fellowships	7,492,803
Utilities	3,999,851
Depreciation	5,955,290
	<hr/>
Total Operating Expenses	105,248,826
	<hr/>
Operating Loss	(67,246,389)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	50,448,094
State Aid - Federal Recovery Funds	1,808,539
Noncapital Grants - Federal Student Financial Aid	9,321,990
Other Noncapital Grants	223,582
Noncapital Gifts, Net	697,774
Investment Income (Net of Investment Expense of \$87,220)	(571,490)
Interest and Fees on Debt	(2,570,321)
Other Nonoperating Revenues (Expenses)	(80,901)
	<hr/>
Net Nonoperating Revenues	59,277,267
	<hr/>
Income Before Other Revenues, Expenses, Gains, or Losses	(7,969,122)
Capital Appropriations	75,000
Refund of Prior Years Capital Appropriations	(584,640)
Capital Grants	2,219,170
Additions to Endowments	1,188,853
	<hr/>
Increase (Decrease) in Net Assets	(5,070,739)

**NET ASSETS**

Net Assets - July 1, 2008	111,875,681
	<hr/>
Net Assets - June 30, 2009	\$ 106,804,942
	<hr/> <hr/>

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

*The University of North Carolina at Pembroke*  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2009**

*Exhibit A-3*

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 38,373,561
Payments to Employees and Fringe Benefits	(58,714,132)
Payments to Vendors and Suppliers	(33,472,494)
Payments for Scholarships and Fellowships	(7,492,803)
Loans Issued	(504,006)
Collection of Loans	439,780
Interest Earned on Loans	13,768
Other Receipts (Payments)	355,740
	<hr/>
Net Cash Provided (Used) by Operating Activities	(61,000,586)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	50,448,094
State Aid - Federal Recovery Funds	1,808,539
Noncapital Grants - Federal Student Financial Aid	9,321,990
Noncapital Grants	551,391
Noncapital Gifts	697,774
Related Activity Agency Receipts	25,594,731
Related Activity Agency Disbursements	(25,717,382)
Additions to Endowments	1,188,853
Other Receipts (Payments)	85,040
	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	63,979,030

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

State Capital Appropriations	75,000
Refund of Prior Year State Appropriations	(584,640)
Capital Grants	2,657,330
Acquisition and Construction of Capital Assets	(6,362,435)
Proceeds from Sale of Capital Assets	(3,805)
Principal Paid on Capital Debt and Leases	(1,272,417)
Interest and Fees Paid on Capital Debt and Leases	(2,564,571)
Other Receipts (Payments)	(5,750)
	<hr/>
Net Cash Provided (Used) by Capital Financing and Related Financing Activities	(8,061,288)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	7,077,980
Investment Income	612,553
Purchase of Investments and Related Fees	(7,740,370)
	<hr/>
Net Cash Provided by Investing Activities	(49,837)

Net Increase (Decrease) in Cash and Cash Equivalents	(5,132,681)
Cash and Cash Equivalents - July 1, 2008	23,647,585
	<hr/>

Cash and Cash Equivalents - June 30, 2009	\$ 18,514,905
	<hr/> <hr/>

***The University of North Carolina at Pembroke  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2008***

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

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

Operating Loss	\$ (67,246,389)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	5,955,290
Nonoperating Other Income (Expenses)	
Changes in Assets and Liabilities:	
Receivables (Net)	743,442
Inventories	(296,557)
Accounts Payable and Accrued Liabilities	(213,459)
Unearned Revenue	2,666
Compensated Absences	120,729
Deposits Payable	(66,308)
 Net Cash Provided (Used) by Operating Activities	 <u><u>\$ (61,000,586)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 11,709,635
Restricted Cash and Cash Equivalents	2,955,238
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>3,850,032</u>
Total Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 18,514,905</u></u>

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

Loss on Disposal of Capital Assets	\$ 144,135
Change in Fair Value of investments	(1,463,965)

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

*The University of North Carolina at Pembroke Foundations*  
*Statement of Financial Position*  
*June 30, 2009*

*Exhibit B-1*

	<b>The UNCP Foundation, Inc.</b>	<b>The UNCP University Foundation, LLC</b>	<b>The UNCP Student Housing Foundation, LLC</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,032,518	\$ 133,757	\$ 967,485
Pooled Investments Held by Fiscal Agent	2,164,256		
Cash Surrender Value of Life Insurance	49,938		
Security Deposits		41,686	
Assets Held by Trustees		1,211,639	1,589,805
Capital Lease Receivable			31,120,487
Accounts Receivable		22,538	
Interest Receivable	1,380		1,716
Pledges Receivable/Promises	737,618		
Prepaid Expenses		32,702	
Deferred Charges		440,696	
Property and Equipment, Net	4,240,398	7,217,828	
<b>Total Assets</b>	<b>8,226,108</b>	<b>9,100,846</b>	<b>33,679,493</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	4,837	95,632	
Interest Payable	37,173	35,460	272,402
Deposits Payable		38,129	
Funds Held for Others		50,311	
Interest Rate Swap Fair Value Liability		1,564,664	
Notes Payable	2,369,803	10,745,000	
Bonds Payable			22,060,000
<b>Total Liabilities</b>	<b>2,411,813</b>	<b>12,529,196</b>	<b>22,332,402</b>
<b>NET ASSETS</b>			
Unrestricted	233,728	(3,428,350)	11,347,091
Temporarily Restricted	3,267,022		
Permanently Restricted	2,313,545		
<b>Total Net Assets</b>	<b>\$ 5,814,295</b>	<b>\$ (3,428,350)</b>	<b>\$ 11,347,091</b>

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

***The University of North Carolina at Pembroke Foundations  
Statement of Activities  
For the Fiscal Year Ended June 30, 2009***

***Exhibit B-2***

	The UNCP Foundation, Inc.	The UNCP University Foundation, LLC	The UNCP Student Housing Foundation, LLC
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
Revenues and Gains:			
Contributions	\$ 123,318	\$	\$
Income Earned on Investments	21,508		59,879
Unrealized Loss on Investments	(1,957)		
Rental and Lease Income		1,487,812	
Miscellaneous Income		66,504	
Total Unrestricted Revenues and Gains	142,869	1,554,316	59,879
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	500,656		
Total Net Assets Released from Restrictions	500,656	0	0
Total Unrestricted Revenues, Gains, and Other	643,525	1,554,316	59,879
Expenses:			
Contributions to the University of North Carolina at Pembroke Development	251,862 (161,830)		
Advertising and Promotional		8,980	
Property Management Fees		82,848	
Payroll and Related		127,140	
Maintenance and Repairs		78,445	
Utilities		323,229	
Taxes and Insurance		28,595	
Supplies		21,271	
Interest		387,544	1,030,284
Professional Fees		14,063	2,500
Fiscal Agent Fees			7,410
Depreciation		286,009	
Amortization		19,881	
Management and General	588,631	66,473	452,839
Bond Fees		122,976	
Change in the Fair Value of Interest Rate Swap		703,112	
Total Expenses	678,663	2,270,566	1,493,033
Increase (Decrease) in Unrestricted Assets	(35,138)	(716,250)	(1,433,154)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>			
Contributions	818,704		
Income on Earned on Investments	72,826		
Unrealized Gains on Investments	(387,778)		
Satisfaction of Program Restrictions	(500,656)		
Increase (Decrease) in Temporarily Restricted Net Assets	3,096	0	0
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>			
Contributions	183,774		
Income Earned Investments	(2,956)		
Unrealized Gains on Investments	(3,412)		
Increase (Decrease) in Permanently Restricted Net Assets	177,406	0	0
Increase (Decrease) in Net Assets	145,364	(716,250)	(1,433,154)
Net Assets at Beginning of Year	5,668,931	(2,712,100)	12,780,245
Net Assets at End of Year	\$ 5,814,295	\$ (3,428,350)	\$ 11,347,091

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, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

The University of North Carolina at Pembroke Foundation, Inc. acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of nine elected public directors, five elected non-public directors, and two ex-officio directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit

of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The UNCP University Foundation, LLC and The UNCP Student Housing Foundation, LLC provide housing for University students. The UNCP University Foundation, LLC (the “Courtyard”) was organized as a limited liability company on October 16, 2000, under the laws of the State of North Carolina for the purposes of acquiring, developing, constructing, and operating a 336-bed student housing rental project. The property location is in Pembroke, North Carolina and is currently known as the University Courtyard Apartments. The major activities of the Courtyard are governed by an operating agreement. The University of North Carolina at Pembroke Foundation, Inc. is the sole member of the Courtyard. The UNCP Student Housing Foundation, LLC (the “Housing LLC”) was organized as a limited liability company on December 5, 2003, under the laws of the State of North Carolina for the purpose of acquiring, developing, constructing, and operating student housing projects. The property locations are on the campus of the University of North Carolina at Pembroke and are currently known as the University Village Apartments and Oak Hall. Each site has 360 beds. The major activities of the Housing LLC are governed by operating agreements. The University of North Carolina at Pembroke Foundation, Inc., is the sole member of the Housing LLC. The Foundations are reported in separate financial statements because of the difference in their reporting model, as described below.

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

During the year ended June 30, 2009, the University of North Carolina at Pembroke Foundation, Inc. distributed \$251,862 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundations can be obtained from the University’s Office of Business Affairs.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and*

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

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

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

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

- D. **Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. **Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount 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.

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

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.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at the lower of cost or market value using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the weighted average method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 75 years for buildings, and 2 to 25 years for equipment.

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

- I. Restricted Assets** – Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include

resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University's bond premiums/discounts are considered immaterial and are expensed with the issuance costs. Deferred gains/losses on defeased bonds are also considered immaterial and are expensed rather than amortized.

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

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

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

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

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

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

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

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

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

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

**N. Revenue and Expense Recognition** – The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all

expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, the print shop, motor pool, and auxiliaries with interdepartmental activities. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

## **NOTE 2 - DEPOSITS AND INVESTMENTS**

- A. Deposits** – Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$18,476,064 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is

not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly OSC's index page," then "Reports" or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was \$15,103. The carrying amount of the University's deposits not with the State Treasurer was \$23,739 and the bank balance was \$18,864. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, the University's bank balance was covered by federal depository insurance and was not exposed to custodial credit risk.

## **B. Investments**

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

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

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

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

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

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

Investments are subject to the following risks.

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

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the Long-Term Investment Pool.

***Long-Term Investment Pool***

	Fair Value	Investment Maturities (in Years)			More than 10
		Less Than 1	1 to 5	6 to 10	
<b>Investment Type</b>					
Investments Subject to Interest rate Risk:					
Debt Securities					
U.S. Treasuries	\$ 764,123	\$ 0	\$ 213,033	\$ 551,090	\$ 0
U.S. Agencies	748,880	0	625,227	0	123,653
Asset-Backed Securities	396,608	0	67,081	207,519	122,008
Mutual Bond Funds	271,424	0	0	0	271,424
Money Market Mutual Funds	667,421	667,421	0	0	0
Domestic Corporate Bonds	1,459,544	220,193	720,473	518,878	0
Total Investment Subject to Interest Rate Risk	\$ 4,308,000	\$ 887,614	\$ 1,625,814	\$ 1,277,487	\$ 517,085
Other Investments Not Subject to Interest Rate Risk:					
Other Securities					
International Mutual Funds	\$ 267,162				
Real Estate Investment Trust	18,500				
Hedge Funds	271,881				
Limited Partnerships	22,279				
Domestic Stocks	3,352,304				
Foreign Stocks	1,738,478				
Managed Futures	81,571				
Total Investment Not Subject to Credit Crisk	\$ 5,752,175				
Total Long-Term Investment Pool	\$ 10,060,175				

In addition to the interest rate risk disclosed above, the Long-Term Investment Pool portfolio includes investments with fair values highly sensitive to interest rate changes.

At June 30, 2009, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	\$ 748,880	\$ 748,880	\$	\$	\$	\$
Asset-Backed Securities	396,608	396,608				
Mutual Bond Funds	271,424				271,424	
Money Market Mutual Funds	667,421	667,421				
Domestic Corporate Bonds	1,459,544	109,601	102,685	815,603	409,878	21,777

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, 2009, for the University's non-pooled investments.

***Non-Pooled Investments***

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Annuity Contracts	\$ 102,319	\$ 0	\$ 0	\$ 0	\$ 102,319
Money Market Mutual Funds	1,589,805	1,589,805			
Total Non-Pooled Investments	<u>\$ 1,692,124</u>				

In addition to the interest rate risk disclosed above, the University's investments include investments with fair values highly sensitive to interest rate changes.

At June 30, 2009, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	Unrated
Annuity Contracts	\$ 102,319	\$	\$ 102,319
Money Market Mutual Funds	1,589,805	1,589,805	
	<u>\$ 1,692,124</u>	<u>\$ 1,589,805</u>	<u>\$ 102,319</u>

Rating Agency: Standard & Poor's

**Total Investments** – The following table presents the fair value of the total investments at June 30, 2009:

<b>Investment Type</b>	<u>Fair Value</u>
Debt Securities	\$
U.S. Treasuries	764,123
U.S. Agencies	748,880
Asset-Backed Securities	396,608
Annuity Contracts	102,319
Mutual Bond Funds	271,424
Money Market Mutual Funds	2,257,226
Domestic Corporate Bonds	1,459,544
Other Securities	
Domestic Stocks	3,352,304
Foreign Stocks	1,738,478
International Mutual Funds	267,162
Real Estate Investment Trusts	18,500
Hedge Funds	271,881
Limited Partnerships	22,279
Managed Futures	81,571
Total Investments	<u>\$ 11,752,299</u>

Total investments include \$3,803,999 held in the Endowment Fund for component units that are discretely presented in the accompanying financial statements.

**Component Units** - Investments of the University’s discretely presented component units, The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC, are subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundations report under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments and reserves.

**University of North Carolina at Pembroke Foundation, Inc.**

All investments are valued at market value. The book value of the investments held by the fiscal agent compared to the market value at June 30, 2009 was as follows:

	<u>Book Balance</u>	<u>Market Value</u>
Pooled Investment Funds	\$ 2,553,591	\$ 2,164,256

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2009.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Income Earned on Investments	\$ 21,508	\$ 72,826	\$ (2,956)	\$ 91,378
Net Unrealized Gains (Loss)	<u>(1,957)</u>	<u>(387,778)</u>	<u>(3,412)</u>	<u>(393,147)</u>
Total Investment Return	<u>\$ 19,551</u>	<u>\$ (314,952)</u>	<u>\$ (6,368)</u>	<u>\$ (301,769)</u>

### **UNCP University Foundation, LLC**

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

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

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

At June 30, 2009 funds held by the Trustee consist of:

	<u>June 30, 2009</u>
Debt Service Reserve	\$ 930,850
Residual	49
Bond Fund principal	183,835
Revenue Fund	69,000
Other Trustee Funds	<u>27,905</u>
Total	<u>\$ 1,211,639</u>

### The UNCP Student Housing Foundation, LLC

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

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

At June 30, 2009 funds held by the Trustee consist of:

	June 30, 2009
Revenue	\$ 512,960
Construction	398,248
Debt Service Reserve	83
Interest Reserve	678,514
Total	<u>\$ 1,589,805</u>

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment 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. During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2009 the amount of investment losses reported against the nonexpendable endowment balances were \$1,463,965.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,342,571	\$ 352,805	\$ 1,989,766
Accounts	7,048		7,048
Intergovernmental	794,688		794,688
Pledges	154,710	46,413	108,297
Investment Earnings	24,393		24,393
Interest on Loans	0		0
Other	1,000		1,000
	<u>1,000</u>	<u>46,413</u>	<u>1,000</u>
<b>Total Current Receivables</b>	<u>\$ 3,324,410</u>	<u>\$ 399,218</u>	<u>\$ 2,925,192</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 137,928</u>	<u>\$ 41,112</u>	<u>\$ 96,816</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 342,716	\$ 81,453	\$ 261,263
Institutional Student Loan Programs	106,414	12,223	94,191
	<u>106,414</u>	<u>12,223</u>	<u>94,191</u>
<b>Total Notes Receivable - Current</b>	<u>\$ 449,130</u>	<u>\$ 93,676</u>	<u>\$ 355,454</u>
<b>Total Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 1,073,948</u>	<u>\$ 185,752</u>	<u>\$ 888,196</u>

**NOTE 5 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 2,085,642	\$ 0	\$ 0	\$ 2,085,642
Art, Literature, and Artifacts	168,730			168,730
Construction in Progress	<u>2,067,297</u>	<u>3,591,694</u>	<u>3,964,541</u>	<u>1,694,450</u>
<b>Total Capital Assets, Nondepreciable</b>	<u>4,321,669</u>	<u>3,591,694</u>	<u>3,964,541</u>	<u>3,948,822</u>
Capital Assets, Depreciable:				
Buildings	132,507,362	4,407,676	233,521	136,681,517
Machinery and Equipment	9,623,778	878,327	635,096	9,867,009
General Infrastructure	16,426,793	941,702		17,368,495
Total Capital Assets, Depreciable	<u>158,557,933</u>	<u>6,227,705</u>	<u>868,617</u>	<u>163,917,021</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	23,724,690	3,680,701	160,233	27,245,158
Machinery and Equipment	6,032,325	1,392,640	560,446	6,864,519
General Infrastructure	3,818,770	881,949		4,700,719
Total Accumulated Depreciation	<u>33,575,785</u>	<u>5,955,290</u>	<u>720,679</u>	<u>38,810,396</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>124,982,148</u>	<u>272,415</u>	<u>147,938</u>	<u>125,106,625</u>
<b>Capital Assets, Net</b>	<u>\$ 129,303,817</u>	<u>\$ 3,864,109</u>	<u>\$ 4,112,479</u>	<u>\$ 129,055,447</u>

**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 1,624,916
Accrued Payroll	1,028,009
Contract Retainage	18,195
Other	100,804
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 2,771,924</u>

**NOTE 7 - SHORT-TERM DEBT – LETTERS OF CREDIT**

**A. Component Unit – UNCP University Foundation, LLC** - In connection with the long-term debt the Foundation has a letter of credit in the amount of \$11,775,445 with Wachovia Bank, National Association, formerly known as First Union National Bank. The letter of credit serves as a credit enhancement to the bonds and expires February 12, 2010. There has been no activity on this line of credit during the 2009 fiscal year.

**NOTE 8 - LONG-TERM LIABILITIES**

**UNIVERSITY**

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Revenue Bonds Payable	\$ 10,220,000	\$ 2,055,000	\$ 565,000	\$ 11,710,000	\$ 640,000
Notes Payable	2,459,429		2,152,736	306,693	99,950
Capital Leases Payable	33,587,000		609,681	32,977,319	635,557
Compensated Absences	2,992,612	582,975	462,246	3,113,341	278,335
<b>Total Long-Term Liabilities</b>	<u>\$ 49,259,041</u>	<u>\$ 2,637,975</u>	<u>\$ 3,789,663</u>	<u>\$ 48,107,353</u>	<u>\$ 1,653,842</u>

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

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009	See Table Below
<b>The University of North Carolina System Pool Revenue Bonds</b>							
Housing System	1998B	4.00%-5.25%	09/25/2018	\$ 3,130,000	\$ 1,160,000	\$ 1,970,000	(1)
Recreational Facilities	2006B	3.75%-5.00%	09/25/2021	816,940	100,000	716,940	(2)
Dining System	2006B	3.75%-5.00%	09/25/2016	518,060	95,000	423,060	(3)
University Center Expansion Supplement	2006B	3.75%-5.00%	09/25/2026	1,965,000	130,000	1,835,000	(4)
Recreational Center Improvements	2002B	3.50%-5.0%	03/10/2012	605,000	385,000	220,000	(2)
Surface Parking Lot	2002B	3.50%-5.00%	03/10/2012	285,000	180,000	105,000	(5)
University Center Renovations	2003B	2.00%-4.75%	03/10/2028	3,100,000	520,588	2,579,412	(4)
Auxillary Services Building	2003B	2.00%-4.75%	03/10/2028	1,550,000	260,294	1,289,706	(6)
Recreational Facilities	2003B	2.00%-4.75%	03/10/2028	620,000	104,118	515,882	(2)
Multipurpose Facility - Athletic Field House	2008A	3.00%-5.00%	10/01/2033	2,055,000	0	2,055,000	(7)
Total Bonds Payable				\$ 14,645,000	\$ 2,935,000	\$ 11,710,000	

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues	2,461,509	358,122	246,331	65%
(2)	Recreational Facilities Revenues	1,930,106	260,484	200,024	37%
(3)	Dining Receipts	487,639	292,050	68,240	25%
(4)	University Center Fees	6,596,265	475,665	353,138	75%
(5)	Auxiliary Services Sales	1,954,260	145,481	103,050	40%
(6)	Parking Fees and Fines	115,500	360,610	36,450	10%
(7)	Multi Purpose Center Fees	3,512,875	155,858	94,450	75%
		17,058,154	2,048,270	1,101,683	

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2010	\$ 640,000	\$ 514,284	\$ 99,950	\$ 13,893
2011	670,000	487,814	102,214	9,365
2012	690,000	459,743	104,529	4,735
2013	605,000	429,649		
2014	625,000	403,486		
2015-2019	3,345,000	1,600,834		
2020-2024	2,360,000	974,160		
2025-2029	2,155,000	397,684		
2030-2034	620,000	80,500		
Total Requirements	<u>\$ 11,710,000</u>	<u>\$ 5,348,154</u>	<u>\$ 306,693</u>	<u>\$ 27,993</u>

**D. Prior Year Defeasances** – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University’s financial statements. At June 30, 2009, the outstanding balance of prior year defeased bonds was \$1,160,000.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009
Noncapitalized Banner Software and Equipment	Branch Banking & Trust	4.53%	01/05/2012	\$ 500,000	\$ 193,307	\$ 306,693
Total Notes Payable				<u>\$ 500,000</u>	<u>\$ 193,307</u>	<u>\$ 306,693</u>

**F. Component Units**

**UNCP University Foundation, LLC** – Long-term debt consists of \$10,745,000 at June 30, 2009. Tax-exempt series 2001A term bonds dated January 24, 2001, are due at various intervals through 2031, and are payable in monthly installments of interest and annual installments of

principal. The bonds bear interest at various interest rates up to 12%, as defined in the Trust Indenture, and are secured by deed and assignment of rents.

As described above, the mortgage payable bears interest at a variable rate. To minimize the effect of changes in interest rates, the Organization entered into an interest rate swap agreement under which it pays interest at a fixed rate of 3.96% and receives interest at a variable rate. The variable rate under the swap is based on the same notional amount as the underlying mortgage. However, the variable rate of interest is calculated differently on the swap than on the variable rate bonds plus portions of the bond have fixed interest rates. As a result, the swap is only partially effective as a hedge. Valued separately, the interest rate swap agreement represents a liability as of June 30, 2009, in the amount of \$1,564,664. This value represents the fair value of the current difference in interest paid and received under the swap agreement over the remaining term of the agreement. Payments are recognized in current operating results as settlements as they occur under the agreement as a component of interest expense.

The portions of the settlement payments that are effective as a cash flow hedge are included as a component of interest expense and result in an effective interest rate of 3.96%. The ineffective portion of the settlement payments in fiscal year 2009 was \$52,591 and has been included in the change in fair value of the interest rate swap. The swap matures July 1, 2031. Only interest payments are due under the swap agreement. Total payments due during the next 12 months, net of receipts, are not reasonably estimable because fluctuations in interest rates cannot be estimated.

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

The first monthly interest payment on the bonds began on July 1, 2001. As of June 30, 2009, \$35,460 is accrued.

Maturities of long-term debt at June 30, 2009, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2010	\$ 200,000
2011	240,000
2012	255,000
2013	270,000
2014	285,000
Thereafter	<u>9,495,000</u>
Total	10,745,000
Less Current Maturities	<u>(200,000)</u>
Net Long-Term Portion	<u><u>\$ 10,545,000</u></u>

### **The UNCP Student Housing Foundation, LLC**

Long-term debt at June 30, 2009, consists of tax exempt Series 2004 Certificate of Participation bonds dated January 1, 2004, and due at various intervals through 2034 used (1) to refinance the cost of the construction, acquisition and equipping of an existing 216-bed student housing facility and to finance the cost of the construction, acquisition and equipping of a 144-bed student housing facility, each on the campus of UNCP in Pembroke, North Carolina, (2) to pay capitalized interest with respect to the portion of the 2004 Certificates allocable to the expansion project during construction thereof, (3) to fund a debt service, and (4) to pay expenses related to the 2004 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, As lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated as of January 1, 2004, between the Housing LLC and UNCP and agreed to pay the Trustee (First-Citizens Bank & Trust Company) as base rentals amounts that

correspond to the rental payments required to be paid by the State under the Lease.

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

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

Long-term debt as of June 30, 2009 also consists of tax exempt Series 2006 Certificate of Participation bonds dated April 19, 2006, and due at various intervals through 2037 used to finance (1) the cost of the construction, acquisition and equipping of an approximately 360-bed student housing facility on the campus of The University of North Carolina at Pembroke, (2) the payment of capitalized interest with respect to the 2006 Certificates during construction of the new project, (3) the payment of the premium for the financial guaranty insurance policy, (4) the payment of premiums on the debt service reserve fund policies, and (5) the payment of certain expenses incurred in connection with the execution and delivery of the 2006 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January, 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated as of January 1, 2004, between the Housing LLC and UNCP and agreed to pay the Trustee (First-Citizens Bank & Trust Company) as base rentals amounts that correspond to the rental payments required to be paid by the State under the Lease.

The principal and interest are payable in semi-annual installments of interest and annual installments of principal from the amounts payable by

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

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

Annual Requirements – The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009 are as follows:

Fiscal Year	Principal	Interest
2010	\$ 415,000	\$ 817,206
2011	450,000	908,631
2012	500,000	829,806
2013	520,000	891,606
2014	545,000	831,156
Thereafter	<u>19,630,000</u>	<u>12,035,416</u>
Total Requirements	22,060,000	16,313,821
Less: Current Maturities	<u>(415,000)</u>	<u>(817,206)</u>
Net Long-Term Portion	<u>\$ 21,645,000</u>	<u>\$ 15,496,615</u>

**NOTE 9 - LEASE OBLIGATIONS**

**A. Capital Lease Obligations** - Capital lease obligations relating to University student housing is recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 2,014,000
2011	2,014,000
2012	2,014,000
2013	2,014,000
2014	2,014,000
2015-2019	10,070,000
2020-2024	10,070,000
2025-2029	10,070,000
2030-2034	10,070,000
2035-2037	6,042,000
	<hr/>
Total Minimum Lease Payments	56,392,000
Amount Representing Interest (4.20% Rate of Interest)	23,414,681
	<hr/>
Present Value of Future Lease Payments	<u>\$ 32,977,319</u>

Buildings acquired under capital lease amounted to \$34,171,860 at June 30, 2009.

- B. Operating Lease Obligations** – The University entered into operating leases for Land, Office Space and Office Equipment. Future minimum lease payments under non-cancelable leases consist of the following at June 30, 2009.

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 149,292
2011	111,107
2012	98,994
2013	100,218
Total Minimum Lease Payments	<u>\$ 459,611</u>

Rental expense for all operating leases during the year was \$138,414.

**NOTE 10 - REVENUES**

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 23,254,118	\$ 0	\$ 3,286,639	\$ 352,805	\$ 19,614,674
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 5,976,666	\$ 454,647	\$ 851,053	\$ 0	\$ 4,670,966
Dining	4,283,800	325,871	578,675		3,379,254
Student Union Services	49,224	3,745			45,479
Health, Physical Education, and Recreation Services	1,105,483	84,095	253,513		767,875
Bookstore	4,731,113	359,898	429,573		3,941,642
Parking	278,713	21,202			257,511
Athletic	196,110	14,916			181,194
Other	1,264,919	96,223			1,168,696
Sales and Services of Education and Related Activities	400,003	115,308			284,695
<b>Total Sales and Services</b>	<b>\$ 18,286,031</b>	<b>\$ 1,475,905</b>	<b>\$ 2,112,814</b>	<b>\$ 0</b>	<b>\$ 14,697,312</b>

**NOTE 11 - OPERATING EXPENSES BY FUNCTION**

The University's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 30,854,212	\$ 1,069,543	\$ 1,827,532	\$ 1,000	\$ 3,024	\$ 0	\$ 33,755,311
Research	197,009	8,184	17,612				222,805
Public Service	1,464,758	191,205	755,893	600			2,412,456
Academic Support	7,146,794	1,852,554	1,399,193	1,000			10,399,541
Student Services	3,666,234	348,531	2,785,508				6,800,273
Institutional Support	7,110,951	73,948	1,868,768		1,321		9,054,988
Operations and Maintenance of Plant	5,376,291	2,098,729	2,641,015		2,380,823		12,496,858
Student Financial Aid			122,993	7,487,078			7,610,071
Auxiliary Enterprises	3,560,801	2,248,480	9,114,144	3,125	1,614,683		16,541,233
Depreciation						5,955,290	5,955,290
<b>Total Operating Expenses</b>	<b>\$ 59,377,050</b>	<b>\$ 7,891,174</b>	<b>\$ 20,532,658</b>	<b>\$ 7,492,803</b>	<b>\$ 3,999,851</b>	<b>\$ 5,955,290</b>	<b>\$ 105,248,826</b>

**NOTE 12 - PENSION PLANS**

- A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$47,586,571, of which \$23,367,513 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$785,148 and \$1,402,051, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$785,148, \$642,660, and \$505,038, 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2009, 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 \$47,586,571, of which \$20,859,585 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$ 1,426,796 and \$1,251,575, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$169,110 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were \$23,672. The voluntary contributions by employees amounted to \$177,516 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$610,354 for the year ended June 30, 2009.

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the

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

For the current fiscal year the University contributed 4.1% 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$1,813,311, \$1,602,009, and \$1,306,184, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$229,981, \$203,182, and \$178,741, respectively. The University assumes

no liability for long-term disability benefits under the Plan other than its contribution.

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

**NOTE 14 - RISK MANAGEMENT**

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

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. 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 pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

The University retained the following risks as of June 30, 2009:  
Employees paid by State appropriations and purchased coverage for all other employees with a private insurance company through the North Carolina Department of Insurance.

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

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

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$3,868,001 and on other purchases were \$266,748 at June 30, 2009.
- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

**C. Other Contingent Receivables** – The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Capital Improvement - State General Obligation Bonds	\$ 1,140,175

**NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations.*

*GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments.*

GASB Statement No. 49, requires reporting pollution remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, amends GASB Statement 31 which required endowments to report land and other real estate investments at historical cost by requiring the reporting of land and other real estate held as investments at fair value.