

# STATE OF NORTH CAROLINA

**THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE**

**PEMBROKE, NORTH CAROLINA**

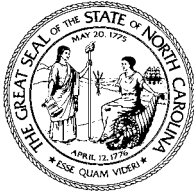
**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**



Beth A. Wood, CPA  
State Auditor

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**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, The University of North Carolina at Pembroke

We have completed a financial statement audit of The University of North Carolina at Pembroke for the year ended June 30, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

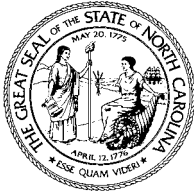
Beth A. Wood, CPA  
State Auditor

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# Office of the State Auditor



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Pembroke, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Pembroke Foundation, Inc. and Subsidiaries, which represent 28 percent, 7 percent, and 5 percent, respectively, of the assets, net position, and revenues of the University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of North Carolina at Pembroke Foundation, Inc. and Subsidiaries, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

### Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Pembroke, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

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

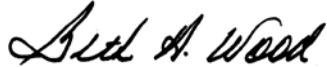
### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 15, 2014

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

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The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of the University of North Carolina at Pembroke (the "University") for the year ended June 30, 2014, with comparative information for the year ended June 30, 2013. We encourage you to read this MD&A section in conjunction with the audited financial statements and Notes to the Financial Statements appearing in this report.

### **About the University of North Carolina at Pembroke**

The University of North Carolina at Pembroke is a constituent institution of the University of North Carolina and is North Carolina's Historically American Indian University, with over 6,200 students and over 800 faculty and staff. Founded in 1887 and originally known as the Croatan Normal School, the University has grown into a comprehensive public institution of higher learning, with 41 undergraduate majors and 18 graduate degree programs.

### **About the Financial Statements**

The following financial statements reflect all assets, liabilities, deferred inflows/outflows and net position (equity) of the University, which is considered the "primary government" for financial reporting purposes. In addition, the financial statements also include the consolidated results for the University's component unit, The University of North Carolina at Pembroke Foundation, Inc. and Subsidiaries, which is a legally separate entity that meets the financial accountability criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Condensed financial information for the blended component unit is provided in the Notes to the Financial Statements.

The University presents its financial reports in a "business-type activity" format, in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, a Statement of Cash Flows and Notes to the Financial Statements.

The Statement of Net Position is the University's balance sheet. It reflects the total assets, liabilities, deferred inflows & outflows of financial resources and net position (equity) of the University as of June 30, 2014. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at market value. Capital assets, which include the University's land, buildings, infrastructure and equipment, are shown net of accumulated depreciation. Net position is grouped in the following categories:

- Net Investment in Capital Assets



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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- Restricted – Nonexpendable
- Restricted – Expendable
- Unrestricted

The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has increased during the year ended June 30, 2014. Student tuition and fees revenue is shown net of scholarship discounts and bad debt expenses, depreciation is provided for capital assets and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments. It should be noted that the required subtotal for net operating income or loss will reflect a "loss" for state-supported colleges and universities. This is due to the way operating and nonoperating items are defined under GASB Statement No. 9, *Reporting Cash Flows or Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all University expenses, except for interest on long-term debt. Operating revenues, however, exclude certain significant revenue streams that the University and other public institutions have traditionally relied upon to fund current operations, including state instructional support, gifts and investment income.

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2014 with comparative information for fiscal year 2013. It breaks out the sources and uses of University cash into the following categories:

- Operating activities
- Noncapital financing activities
- Capital financing activities and related financing activities
- Investment activities

Cash flows associated with the University's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets and long-term debt repayments. Purchases and sales of investments are reflected as investing activities.

The Notes to the Financial Statements, which follow the financial statements, provide additional details on the amounts in the financial statements.

### **Financial Highlights**

The University's net position continued its upward trend by \$4.06 million to \$152.26 million. Student tuition and fees and sales and services contributed \$1.79 million and \$0.39 million to the increase, respectively, reflecting increases in both student tuition and fees as well as increases to housing rates across the dormitory system. Management excelled in containing costs as operating expenses decreased by 2% or \$1.87 million. Additionally, the Endowment fund contributed \$2.85 million in revenue.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Analysis – Statement of Net Position

Assets and Deferred Outflows of Resources	FY 2014	FY 2013 (as restated)	Change	%
Cash and Short-Term Investments	\$ 20,469,496	\$ 23,458,343	\$ (2,988,847)	-13%
Receivables and Inventories	<u>2,799,757</u>	<u>2,942,439</u>	<u>(142,682)</u>	-5%
<b>Current Assets</b>	<u>23,269,253</u>	<u>26,400,782</u>	<u>(3,131,529)</u>	-12%
Endowment Investments	21,153,758	18,173,114	2,980,644	16%
Cash and Investments	7,507,928	4,751,087	2,756,841	58%
Other Noncurrent Assets	608,751	598,101	10,650	2%
Capital Assets, Net of Accumulated Depreciation	<u>169,534,583</u>	<u>171,178,345</u>	<u>(1,643,762)</u>	-1%
<b>Noncurrent Assets</b>	<u>198,805,020</u>	<u>194,700,647</u>	<u>4,104,373</u>	2%
<b>Total Assets</b>	<u>\$ 222,074,273</u>	<u>\$ 221,101,429</u>	<u>\$ 972,844</u>	0.44%
Accumulated Decrease in Fair Value of Hedging Derivatives	<u>\$ 2,101,545</u>	<u>\$ 2,207,393</u>	<u>\$ (105,848)</u>	-5%
<b>Deferred Outflows of Resources</b>	<u>\$ 2,101,545</u>	<u>\$ 2,207,393</u>	<u>\$ (105,848)</u>	-5%

Current cash and short-term investments declined by \$2.99 million to \$20.47 million, reflecting a \$0.5 million decrease in cash collected for tuition and fees for terms originating in the next fiscal year compared to the prior year. The decrease also reflects a \$1.0 million decrease in state appropriated cash that is permitted to be carried forward from one fiscal year to the next. This decrease is attributable to a \$2.47 million decrease in the amount of funds appropriated from the state legislature to the University.

Investments held within the University's endowment fund had a productive year, increasing \$2.98 million to \$21.15 million. Endowment funds are invested in a diversified portfolio of equities, fixed income, real estate, hedge funds, private equity and other investment vehicles. Noncurrent cash and investments primarily reflect cash and investments that are deposited with the University's bond trustees. These increases in funds held with the bond trustees reflect scheduled deposits for capital maintenance and improvements for the portion of the dormitory system that were financed by capital debt. Cash and investments also increased due to cash restricted for the University's entrepreneurship incubator, currently being constructed in downtown Pembroke. Capital assets, net of accumulated depreciation decreased by \$1.64 million due to depreciation expenses and a relatively muted year for capital asset construction and acquisition.

The accumulated decreased in the fair value of the hedging derivatives is related to the interest rate swap for the 2001A variable interest rate bond. This amount is entirely offset by the hedging derivative liability. This amount is currently a liability and represents the amount that would have to be paid to the swap's counterparty should the University's Foundation wish to terminate the swap agreement.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

<b>Liabilities</b>	<b>FY 2014</b>	<b>FY 2013 (as restated)</b>	<b>Change</b>	<b>% Change</b>
Accounts Payables and Accrued Liabilities	\$ 1,974,920	\$ 2,379,509	\$ (404,589)	-17%
Unearned Revenue	322,297	1,215,868	(893,571)	-73%
Current Portion of Long-Term Debt	2,513,264	2,243,278	269,986	12%
Other Current Liabilities	883,001	892,316	(9,315)	-1%
<b>Current Liabilities</b>	<b>5,693,482</b>	<b>6,730,971</b>	<b>(1,037,489)</b>	<b>-15%</b>
Other Noncurrent Liabilities	1,578,756	1,527,973	50,783	3%
Hedging Derivative Liability	2,101,545	2,207,393	(105,848)	-5%
Noncurrent Portion of Long-Term Debt	62,539,500	64,637,195	(2,097,695)	-3%
<b>Noncurrent Liabilities</b>	<b>66,219,801</b>	<b>68,372,561</b>	<b>(2,152,760)</b>	<b>-3%</b>
<b>Total Liabilities</b>	<b>\$ 71,913,283</b>	<b>\$ 75,103,532</b>	<b>\$ (3,190,249)</b>	<b>-4%</b>

Total liabilities declined by roughly \$3.19 million to \$71.91 million, mainly due to the scheduled principal retirements of long-term debt. Accounts payables and accrued liabilities declined by \$0.4 million, reflecting muted capital construction and acquisition activity compared to the previous year when accounts payables to construction contractors were much higher. Unearned revenue decreased due to a change in the academic calendar, specifically, the Summer II semester started roughly two weeks later than in the previous year. Because the start of the Summer II semester started in fiscal year 2015, unearned revenue declined by \$0.89 million to \$0.32 million.

<b>Net Position</b>	<b>FY 2014</b>	<b>FY 2013 (as restated)</b>	<b>Change</b>	<b>% Change</b>
Net Investment in Capital Assets Restricted	\$ 107,858,285	\$ 107,498,345	\$ 359,940	0.33%
Nonexpendable	15,123,760	14,532,165	591,595	4%
Expendable	15,899,562	11,563,125	4,336,437	38%
Unrestricted	13,380,928	14,611,657	(1,230,729)	-8%
<b>Total Net Position</b>	<b>\$ 152,262,535</b>	<b>\$ 148,205,292</b>	<b>\$ 4,057,243</b>	<b>3%</b>

Net investment in capital assets consists of University capital assets reduced for accumulated depreciation and related long-term debt. This increased by \$0.36 million during fiscal year 2014 due to construction and acquisition of capital assets and principal retirements outpacing depreciation expense.

Restricted nonexpendable net position consists solely of endowment gifts with specific restrictions and gifts whose principal is maintained in perpetuity. This category increased by \$0.59 million, representing increases to permanent endowments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Restricted expendable net position consists of income from endowment funds, gifts, pledges with specific restrictions, grants from third party agencies with expenditure restrictions, and funds on deposit with bond trustees for the future debt service payments. This category increased by \$4.34 million, largely from the \$2.85 million in investment income.

Unrestricted net position includes resources not exposed to externally imposed restrictions, and are derived from operating activities, unrestricted gifts, and interest income. Unrestricted net position decreased by \$1.23 million or 8% primarily due to the decrease in state appropriations received from the State.

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

<b>Operating Revenues</b>	<b>FY 2014</b>	<b>FY2013 (as restated)</b>	<b>Change</b>	<b>% Change</b>
Student Tuition and Fees, Net	\$ 21,921,254	\$ 20,121,755	\$ 1,799,499	9%
Grants and Contracts	162,079	290,101	(128,022)	-44%
Sales and Services, Net	15,086,268	14,692,290	393,978	3%
Other Operating Revenues	840,116	551,889	288,227	52%
<b>Total Operating Revenues</b>	<b>\$ 38,009,717</b>	<b>\$ 35,656,035</b>	<b>\$ 2,353,682</b>	<b>7%</b>

Net student tuition and fees revenue increased by 9% or \$1.80 million to \$21.9 million, reflecting a 6.6% resident tuition increase, a 6% increase in fees, and an increase in enrollment. Sales and services revenue increased by 3% from fiscal year 2013 due to an overall increase in demand for dining and housing services as well as an increase in pricing.

#### Operating Expenses (By Function)

	<b>FY 2014</b>	<b>FY 2013</b>
Instruction	\$ 34,489,512	\$ 34,645,060
Research	401,601	477,163
Public Service	1,583,420	1,724,367
Academic Support	11,463,169	12,384,151
Student Services	5,819,602	6,996,691
Institutional Support	10,967,310	10,694,445
Operating & Maintenance of Plant	9,890,680	9,430,923
Student Financial Aid	9,317,653	9,877,174
Auxiliary Enterprises	20,950,850	20,739,792
Depreciation	5,279,874	5,065,266
<b>Total Operating Expenses (By Function)</b>	<b>\$ 110,163,671</b>	<b>\$ 112,035,032</b>

Total operating expenses decreased by \$1.87 million from the previous year as management successfully contained costs in reaction to cuts to state appropriations. The most notable decrease was in supplies and materials expenses as decreases in purchases of personal

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

computers, library materials and general supplies declined precipitously. Scholarships and fellowships expense declined by 7%, reflecting a \$450 thousand reduction in student financial aid awards for the UNC Need Based grant.

<b>Operating Expenses</b>	<b>FY 2014</b>	<b>FY 2013 (as restated)</b>	<b>Change</b>	<b>% Change</b>
Salaries and Benefits	\$ 64,371,933	\$ 64,384,917	\$ (12,984)	-0.02%
Supplies and Materials	8,625,784	10,038,086	(1,412,302)	-14%
Services	18,852,347	18,836,007	16,340	0.09%
Scholarships and Fellowships	9,212,240	9,876,896	(664,656)	-7%
Utilities	3,821,493	3,833,860	(12,367)	-0.32%
Depreciation	5,279,874	5,065,266	214,608	4%
<b>Total Operating Expenses</b>	<b>110,163,671</b>	<b>112,035,032</b>	<b>(1,871,361)</b>	<b>-2%</b>
<b>Operating Loss</b>	<b>\$ (72,153,953)</b>	<b>\$ (76,378,996)</b>	<b>\$ 4,225,043</b>	<b>-6%</b>

As with the majority of all public universities, UNCP shows a significant operating loss of \$72.15 million due to the treatment of significant revenue streams, such as state appropriations, noncapital grants and investment income, as non-operating revenue. Notably, the University's operating loss decreased by \$4.23 million for reasons previously mentioned.

<b>Nonoperating Revenues (Expenses)</b>	<b>FY 2014</b>	<b>FY 2013 (as restated)</b>	<b>Change</b>	<b>% Change</b>
State Appropriations	\$ 51,893,896	\$ 54,372,770	\$ (2,478,874)	-5%
Noncapital Grants and Gifts	21,777,489	21,883,393	(105,904)	-0.48%
Investment Income, Net	2,852,101	1,882,127	969,974	52%
Interest and Fees on Debt	(3,382,140)	(3,110,996)	(271,144)	9%
Federal Interest Subsidy on Debt	368,550	400,380	(31,830)	-8%
Other Nonoperating Expenses	(599,526)	(950,966)	351,440	-37%
<b>Net Nonoperating Revenues</b>	<b>\$ 72,910,370</b>	<b>\$ 74,476,708</b>	<b>\$ (1,566,338)</b>	<b>-2%</b>
<b>Other Revenues</b>				
Capital Appropriations	\$ 2,594,527	\$	\$ 2,594,527	
Capital Grants and Gifts	244,846	3,340,967	(3,096,121)	-93%
Additions to Permanent Endowments	461,454	1,336,150	(874,696)	-65%
<b>Total Other Revenues</b>	<b>\$ 3,300,827</b>	<b>\$ 4,677,117</b>	<b>\$ (1,376,290)</b>	

Appropriations from the State for the University were \$51.89 million, a decrease of \$2.48 million for general operations. These decreases resulted from a reduction in funding for the University system as enacted by the General Assembly as well as a \$600 thousand reversion required by the Office of State Budget and Management (OSBM) during the fourth

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

quarter of the fiscal year as OSBM took emergency action in response to a shortfall of tax revenues at the state level.

Net investment income generated \$2.85 million in revenue, a \$0.97 million increase. The endowment fund provided a 15.89% return for fiscal year 2014.

The University received \$245 thousand in capital grants and gifts, a decrease of \$3.1 million from the prior year. This decrease reflects the lack of grant-funded construction projects in fiscal year 2014. The University did receive \$2.59 million in state capital appropriations for various repair and renovation projects on campus that was not reflected in the prior year. Additions to endowments decreased by \$0.87 million, primarily due to a decrease in state-funded endowed professorship contributions of \$0.75 million.

Changes in Net Position	FY 2014	FY 2013 (as restated)	Change	% Change
Beginning Net Position	\$ 148,205,292	\$ 145,430,466	\$ 2,774,826	2%
Total Revenues	118,202,580	118,871,822	(669,242)	-1%
Total Expenses	(114,145,337)	(116,096,996)	1,951,659	2%
Increase in Net Position	4,057,243	2,774,826	1,282,417	46%
Ending Net Position	<u>\$ 152,262,535</u>	<u>\$ 148,205,292</u>	<u>\$ 4,057,243</u>	3%

As a result of successful operations and the implementation of strategic cost avoidance initiatives, the University retained a \$4.06 million increase in net position, 46% greater than net position increase in the prior year.

### Statement of Cash Flows

	FY 2014	FY 2013	Change	% Change
Cash Inflows (Outflows) from:				
Operating Activities	\$ (68,128,813)	\$ (71,135,725)	\$ 3,006,912	4%
Noncapital Financing Activities	73,668,202	77,083,356	(3,415,154)	-4%
Capital Financing and Related Financing Activities	(5,615,081)	(9,638,783)	4,023,702	42%
Investing Activities	140,242	(1,046,576)	1,186,818	113%
Cash, Beginning of Year	23,137,035	27,874,763	(4,737,728)	-16.996%
Increase (Decrease) in Cash	64,550	(4,737,728)	4,802,278	101.362%
Cash, End of Year	<u>23,201,585</u>	<u>23,137,035</u>	<u>64,550</u>	0.279%

The change in cash used from operating activities consists largely in the University's decrease in operating loss. Cash provided from noncapital financial activities largely mirror the revenues and expenses from the University's nonoperating revenue and expense captions

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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mentioned above. Cash used from capital financing and related financing decreased by \$4.02 million due to a decrease in construction related expenditures. Cash provided from investing activities reflects the higher cash balances in the University's bond trustee accounts relative to the previous year. Overall the University's cash balance had a minimal increase from the prior year.

### **Capital Assets and Debt Administration**

The University purchased \$136 thousand in land, reflecting the purchase of property in downtown Pembroke for the University's Entrepreneurship Incubator project as well as a small piece of property adjacent to campus. \$1.67 million in equipment was capitalized, mostly relating to upgrading of the University's information technology core network infrastructure. General infrastructure increased by \$1.70 million as the athletic track was completed early in the year. Buildings increased by \$0.40 million during the year, reflecting existing structures on purchased land.

Projects in process at the end of the fiscal year include the Entrepreneurship Incubator and building improvements to Belk and North Halls and the Chavis Hall fire suppression project. In total, construction in progress was \$0.60 million at June 30, 2014. For further information regarding capital assets, see note five of the Notes to the Financial Statements.

During fiscal year 2015 the University is planning to obtain \$3.7 million in bank financing for construction of the Health Services Building. The Health Services Building will be a 11,000 square feet, two-story facility, housing Student Health Services as well as the Counseling and Testing department. Anticipated completion is slated for fiscal year 2016.

The University is also in the planning stages of the West Hall renovation project. This project will repurpose what was an aging dormitory structure into modern office space. Additionally, the University Athletic Complex is also in the planning stages. The complex will provide much needed student recreation spaces and will encompass 37.7 acres. The site will include three baseball/softball fields, a regulation-size soccer field and three regulation-size flag football fields.

At June 30, 2014, outstanding commitments on construction contracts were \$1.81 million and retainage on outstanding construction contracts was \$113 thousand.

At June 30, 2014, the University had outstanding bond indebtedness in the amount of \$56.31 million of which \$1.74 million is due within the next year, and notes payable of \$5.6 million of which \$0.28 million is due within the next year.

Standard and Poor's downgraded the University's issuer credit rating from an "A" with a negative outlook to an "A-" with a stable outlook. For more detailed information about outstanding debt, see note eight of the Notes to the Financial Statements.

**Economic Factors and Future Operations**

The University anticipates another strong financial performance in fiscal year 2015. Despite the state legislature appropriating the University \$51.6 million, a \$0.2 million decrease from fiscal year 2014 appropriations, current trends are signaling further increases in operating revenues for fiscal year 2015. Demand for a University of North Carolina at Pembroke education was strong for Fall 2014 as our headcount continued to rise to 6,269. Couple this with an increase in fee rates of 7.4% and the University's tuition and fee revenue should set a record high. Demand is also strong for campus housing, even as housing rates increased by an average of 4%. Dormitory system occupancy crossed the 2,000 student threshold for the first time in University history.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is effective beginning fiscal year 2015, requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability, which is the difference between the total pension liability and the net position set aside to pay pension benefits. For cost-sharing employers, the net pension liability is equal to the employer's proportionate share of the collective net pension liability for the plan. The University participates in one cost-sharing defined benefit pension plans, the Teachers and State Employees Retirement System (TSERS). Fortunately, the State of North Carolina has one of the better funded pension plans amongst states; however, based on information provided in the most recently available financial reports for the TSERS pension plan, University management anticipates that Statement No. 68 will result in the recognition of a significant liability in the University's financial statements.



***The University of North Carolina at Pembroke***  
***Statement of Net Position***  
***June 30, 2014***

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 16,109,928.21
Restricted Cash and Cash Equivalents	2,528,686.50
Restricted Short-Term Investments	1,830,881.68
Due from State of North Carolina Component Units	24,925.00
Receivables, Net (Note 4)	1,280,966.42
Inventories	1,412,099.30
Notes Receivable, Net (Note 4)	81,766.39
	<hr/>
Total Current Assets	23,269,253.50

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,562,971.21
Receivables, Net (Note 4)	189,035.48
Endowment Investments	21,153,758.05
Restricted Investments	2,944,956.84
Cash Surrender of Life Insurance Policies	54,227.01
Notes Receivable, Net (Note 4)	365,487.96
Capital Assets - Nondepreciable (Note 5)	4,692,461.25
Capital Assets - Depreciable, Net (Note 5)	164,842,122.00
	<hr/>
Total Noncurrent Assets	198,805,019.80

Total Assets	<hr/> <hr/> 222,074,273.30
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**DEFERRED OUTFLOWS OF RESOURCES**

Accumulated Decrease in Fair Value of Hedging Derivatives	<hr/> 2,101,545.44
Total Deferred Outflows of Resources	<hr/> <hr/> 2,101,545.44

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,974,920.06
Due to Primary Government	6,846.87
Unearned Revenue	322,297.25
Interest Payable	876,153.84
Long-Term Liabilities - Current Portion (Note 8)	2,513,263.73
	<hr/>
Total Current Liabilities	5,693,481.75

Noncurrent Liabilities:

Deposits Payable	334,262.56
Funds Held for Others	477,907.35
U. S. Government Grants Refundable	766,586.11
Hedging Derivative Liability	2,101,545.44
Long-Term Liabilities (Note 8)	62,539,500.12
	<hr/>
Total Noncurrent Liabilities	66,219,801.58

Total Liabilities	<hr/> <hr/> 71,913,283.33
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*The University of North Carolina at Pembroke*  
*Statement of Net Position*  
*June 30, 2014*

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

**NET POSITION**

Net Investment in Capital Assets	107,858,284.74
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	7,211,688.50
Endowed Professorships	7,714,715.66
Departmental Uses	197,356.34
Expendable:	
Scholarships and Fellowships	2,915,313.59
Endowed Professorships	3,201,874.79
Departmental Uses	451,642.66
Loans	22,711.86
Capital Projects	3,309,838.58
Debt Service	3,687,316.05
Operations and Maintenance	1,958,655.04
Other	352,209.75
Unrestricted	<u>13,380,927.85</u>
Total Net Position	<u>\$ 152,262,535.41</u>

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

***The University of North Carolina at Pembroke  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2014***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 11)	\$ 21,921,254.27
State and Local Grants and Contracts	96,114.64
Nongovernmental Grants and Contracts	65,964.74
Sales and Services, Net (Note 11)	15,086,267.99
Interest Earnings on Loans	84,673.10
Other Operating Revenues	755,442.89
	<hr/>
Total Operating Revenues	38,009,717.63

**EXPENSES**

Operating Expenses:

Salaries and Benefits	64,371,933.11
Supplies and Materials	8,625,784.19
Services	18,852,347.32
Scholarships and Fellowships	9,212,240.08
Utilities	3,821,492.52
Depreciation	5,279,873.85
	<hr/>

Total Operating Expenses 110,163,671.07

Operating Loss (72,153,953.44)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	51,893,896.44
Noncapital Grants - Student Financial Aid	17,986,905.65
Noncapital Grants	2,865,079.56
Noncapital Gifts	925,503.98
Investment Income (Net of Investment Expense of \$173,443.24)	2,852,100.93
Interest and Fees on Debt	(3,382,139.73)
Federal Interest Subsidy on Debt	368,549.75
Other Nonoperating Expenses	(599,526.18)
	<hr/>

Net Nonoperating Revenues 72,910,370.40

Income Before Other Revenues 756,416.96

Capital Appropriations	2,594,527.00
Capital Grants	229,845.73
Capital Gifts	15,000.00
Additions to Endowments	461,453.54
	<hr/>

Increase in Net Position 4,057,243.23

**NET POSITION**

Net Position - July 1, 2013, as Restated (Note 18) 148,205,292.18

Net Position - June 30, 2014 \$ 152,262,535.41

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, 2014***

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 36,256,146.21
Payments to Employees and Fringe Benefits	(64,549,326.32)
Payments to Vendors and Suppliers	(31,443,464.39)
Payments for Scholarships and Fellowships	(9,212,240.08)
Loans Issued	(101,998.00)
Collection of Loans	81,953.63
Interest Earned on Loans	84,673.10
Other Receipts	755,442.89
	<hr/>
Net Cash Used by Operating Activities	(68,128,812.96)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	51,893,896.44
Noncapital Grants - Student Financial Aid	17,986,905.65
Noncapital Grants	2,856,412.73
Noncapital Gifts	925,503.98
Additions to Endowments	461,453.54
William D. Ford Direct Lending Receipts	30,398,526.00
William D. Ford Direct Lending Disbursements	(30,399,210.00)
Other Payments	(455,286.01)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	73,668,202.33

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

State Capital Appropriations	2,594,527.00
Capital Grants	204,920.73
Capital Gifts	15,000.00
Proceeds from Sale of Capital Assets	26,069.84
Acquisition and Construction of Capital Assets	(3,574,155.63)
Principal Paid on Capital Debt and Leases	(1,855,000.00)
Interest and Fees Paid on Capital Debt and Leases	(3,401,407.97)
Federal Interest Subsidy on Debt Received	374,965.18
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(5,615,080.85)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	17,660,137.62
Investment Income	1,061,586.45
Purchase of Investments and Related Fees	(18,581,482.15)
	<hr/>
Net Cash Provided by Investing Activities	140,241.92
	<hr/>
Net Increase in Cash and Cash Equivalents	64,550.44
Cash and Cash Equivalents - July 1, 2013	23,137,035.48
	<hr/>
Cash and Cash Equivalents - June 30, 2014	\$ 23,201,585.92

***The University of North Carolina at Pembroke***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2014***

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

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

Operating Loss	\$ (72,153,953.44)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,279,873.85
Allowances and Write-Offs	245,724.52
Changes in Assets and Liabilities:	
Receivables, Net	(256,669.14)
Inventories	87,681.40
Notes Receivable, Net	34,627.83
Accounts Payable and Accrued Liabilities	(493,984.17)
Due to Primary Government	24.84
Unearned Revenue	(893,570.37)
Compensated Absences	30,397.00
Deposits Payable	(8,965.28)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (68,128,812.96)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 16,109,928.21
Restricted Cash and Cash Equivalents	2,528,686.50
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	4,562,971.21
	<hr/>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 23,201,585.92</u></u>

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

Loss on Disposal of Capital Assets	\$ (97,802.79)
Change in Fair Value of Investments	1,816,968.97
Amortization of Bond Premiums	(3,106.10)

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

**THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Blended Component Unit** - Although legally separate, The University of North Carolina at Pembroke Foundation, Inc. and Subsidiaries (the "University Foundation"), is reported as if it was part of the University.

The University Foundation is a nonprofit organization established to foster public understanding of, and support for The University of North Carolina at Pembroke and to solicit and promote donations of any kind for the exclusive benefit of the University. Because the University Foundation's operations are so intertwined with the University, its financial statements, as well as those of its wholly owned subsidiaries, have been included with those of the University.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, certificates of participation payable, notes payable and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method. If the University's bond premiums or discounts are considered immaterial they are expensed as bond issuance costs. Issuance costs are expensed.

- 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**Net Investment in Capital Assets** - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

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. Both restricted and unrestricted net position includes consideration of deferred inflows and outflows of resources.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions 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 dining, residential life, motor pool, the bookstore, print shop and physical plant. In addition, the University has other miscellaneous sales and service units that are operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board Of Governors, pursuant to G.S. 116-36.1, may authorize the University to

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$22,167,336.10 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2014 was \$18,838.86. The carrying amount of the University's deposits not with the State Treasurer was \$1,015,410.96 and the bank balance was \$1,015,410.96. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2014, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 681,767.28</u>
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- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; 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 various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

Investments are subject to the following risks.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Treasuries	\$ 557,294.77	\$ 163,203.75	\$ 373,036.08	\$ 21,054.94	\$ 0.00
U.S. Agencies	295,023.48		145,500.25		149,523.23
Debt Mutual Funds	232,706.69		94,182.74	138,523.95	
Money Market Mutual Funds	1,974,866.37	1,974,866.37			
Pooled Debt Funds	872,929.08	227,143.84	360,347.78	285,437.46	
Domestic Corporate Bonds	1,213,875.36	80,811.20	717,726.78	415,337.38	
Structured Notes	100,837.50	100,837.50			
Unit Investment Trusts	27,443.09		27,443.09		
<b>Total Debt Securities</b>	<b>5,274,976.34</b>	<b>\$ 2,546,862.66</b>	<b>\$ 1,718,236.72</b>	<b>\$ 860,353.73</b>	<b>\$ 149,523.23</b>
<b>Other Securities</b>					
International Mutual Funds	1,065,442.89				
Real Estate Investment Trust	1,192,170.33				
Hedge Funds	1,762,078.28				
Private Equity Limited Partnerships	241,765.33				
Real Assets Limited Partnerships	107,031.00				
Domestic Stocks	8,017,156.50				
Foreign Stocks (denominated in US dollars)	2,446,562.12				
Managed Funds	268,414.48				
Equity ETF / Closed End Funds	682,258.28				
Structured Notes (Equity)	95,902.50				
<b>Total Long-Term Investment Pool</b>	<b>\$ 21,153,758.05</b>				

At June 30, 2014, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 295,023.48	\$ 0.00	\$ 145,500.25	\$ 0.00	\$ 0.00	\$ 0.00	\$ 149,523.23
Unit Investment Trusts	27,443.09					27,443.09	
Debt Mutual Funds	232,706.69						232,706.69
Money Market Mutual Funds	1,974,866.37						1,974,866.37
Domestic Corporate Bonds	1,213,875.36	41,001.23	126,545.94	673,438.75	372,889.44		
Structured Notes	100,837.50					100,837.50	
Debt Closed End Funds	872,929.08					872,929.08	
<b>Totals</b>	<b>\$ 4,717,681.57</b>	<b>\$ 41,001.23</b>	<b>\$ 272,046.19</b>	<b>\$ 673,438.75</b>	<b>\$ 372,889.44</b>	<b>\$ 1,001,209.67</b>	<b>\$ 2,357,096.29</b>

Rating Agency: Standard & Poor's

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities			
U.S. Treasuries	\$ 497,147.50	\$ 0.00	\$ 497,147.50
U.S. Agencies	506,680.00		506,680.00
Commercial Paper	609,504.67	609,504.67	
Money Market Mutual Funds	3,162,506.35	3,162,506.35	
<b>Total Non-Pooled Investments</b>	<b>\$ 4,775,838.52</b>	<b>\$ 3,772,011.02</b>	<b>\$ 1,003,827.50</b>

At June 30, 2014, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA	Unrated
U.S. Agencies	\$ 506,680.00	\$ 506,680.00	\$ 0.00
Commercial Paper	609,504.67		609,504.67
Money Market Mutual Funds	3,162,506.35		3,162,506.35
<b>Totals</b>	<b>\$ 4,278,691.02</b>	<b>\$ 506,680.00</b>	<b>\$ 3,772,011.02</b>

Rating Agency: Standard and Poor's

*Concentration of Credit Risk:* The University places no limit on the amount that may be invested in any one issuer. At June 30, 2014 the University had amounts exceeding 5% of total investments invested with the following issuers:

Debt Security Type	Fair Value	Percentage of Total Investments (UNCP Foundation)
Commercial Paper		
U.S. Bank National Association	\$ 609,504.67	17.40%
U.S. Agencies		
Federal National Mortgage Association	506,680.00	5.27%
<b>Investments Subject to Concentration of Credit Risk:</b>	<b>\$ 1,116,184.67</b>	<b>22.67%</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2014:

Investment Type	Fair Value
<b>Debt Securities</b>	
U.S. Treasuries	\$ 1,054,442.27
U.S. Agencies	801,703.48
Commercial Paper	609,504.67
Debt Mutual Funds	232,706.69
Money Market Mutual Funds	5,137,372.72
Domestic Corporate Bonds	1,213,875.36
Pooled Debt Funds	872,929.08
Structured Notes	100,837.50
Unit Investment Trusts	27,443.09
<b>Other Securities</b>	
International Mutual Funds	1,065,442.89
Real Assets Limited Partnerships	107,031.00
Real Estate Investment Trust	1,192,170.33
Hedge Funds	1,762,078.28
Private Equity Limited Partnerships	241,765.33
Domestic Stocks	8,017,156.50
Foreign Stocks (denominated in US dollars)	2,446,562.12
Managed Futures	268,414.48
Equity ETF/ Closed End Funds	682,258.28
Structured Notes (Equity)	95,902.50
<b>Total Investments</b>	<b>\$ 25,929,596.57</b>

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2014, is as follows:

Cash on Hand	\$ 18,838.86
Amount of Deposits with Private Financial Institutions	1,015,410.96
Deposits in the Short-Term Investment Fund	22,167,336.10
Long-Term Investment Pool	21,153,758.05
Non-Pooled Investments	4,775,838.52
<b>Total Deposits and Investments</b>	<b>\$ 49,131,182.49</b>
<b>Deposits</b>	
<b>Current:</b>	
Cash and Cash Equivalents	\$ 16,109,928.21
Restricted Cash and Cash Equivalents	2,528,686.50
<b>Noncurrent:</b>	
Restricted Cash and Cash Equivalents	4,562,971.21
<b>Total Deposits</b>	<b>23,201,585.92</b>
<b>Investments</b>	
<b>Current:</b>	
Restricted Short-Term Investments	1,830,881.68
<b>Noncurrent:</b>	
Endowment Investments	21,153,758.05
Restricted Investments	2,944,956.84
<b>Total Investments</b>	<b>25,929,596.57</b>
<b>Total Deposits and Investments</b>	<b>\$ 49,131,182.49</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5.5% of the "average market value" of the endowment funds. The "average market value" is defined as an average of the market values on December 31 of the previous three years. The actual spending may be less than the 5.5% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2014, net appreciation of \$6,270,637.92 was available to be spent, of which \$3,201,874.79 was classified in net position as restricted: expendable: endowed professorships; \$2,788,529 was classified in net position as a component of restricted: expendable: scholarships and fellowships; and \$163,058.80 was classified in net position as a component of restricted: expendable: departmental uses as they are restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,067,714.49	\$ 472,088.92	\$ 595,625.57
Accounts	190,539.29	68,970.00	121,569.29
Intergovernmental	281,469.34		281,469.34
Pledges	208,995.76	62,698.44	146,297.32
Employees	2,337.48		2,337.48
Federal Interest Subsidy on Debt	127,044.56		127,044.56
Other	6,622.86		6,622.86
<b>Total Current Receivables</b>	<b>\$ 1,884,723.78</b>	<b>\$ 603,757.36</b>	<b>\$ 1,280,966.42</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 270,050.70	\$ 81,015.22	\$ 189,035.48
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 156,477.78	\$ 74,711.39	\$ 81,766.39
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 699,440.70	\$ 333,952.74	\$ 365,487.96

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
<b>Capital Assets, Nondepreciable:</b>				
Land and Permanent Easements	\$ 3,783,068.59	\$ 135,510.81	\$ 0.00	\$ 3,918,579.40
Art, Literature, and Artifacts	173,729.87			173,729.87
Construction in Progress	750,383.83	302,301.85	452,533.70	600,151.98
<b>Total Capital Assets, Nondepreciable</b>	<b>4,707,182.29</b>	<b>437,812.66</b>	<b>452,533.70</b>	<b>4,692,461.25</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	183,210,782.81	403,406.92	73,542.68	183,540,647.05
Machinery and Equipment	17,514,399.98	1,673,139.80	431,996.06	18,755,543.72
General Infrastructure	22,025,142.43	1,698,158.76		23,723,301.19
<b>Total Capital Assets, Depreciable</b>	<b>222,750,325.22</b>	<b>3,774,705.48</b>	<b>505,538.74</b>	<b>226,019,491.96</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	41,309,251.03	3,841,280.16	525.30	45,150,005.89
Machinery and Equipment	8,609,350.85	1,004,963.57	381,140.81	9,233,173.61
General Infrastructure	6,360,560.34	433,630.12		6,794,190.46
<b>Total Accumulated Depreciation</b>	<b>56,279,162.22</b>	<b>5,279,873.85</b>	<b>381,666.11</b>	<b>61,177,369.96</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>166,471,163.00</b>	<b>(1,505,168.37)</b>	<b>123,872.63</b>	<b>164,842,122.00</b>
<b>Capital Assets, Net</b>	<b>\$ 171,178,345.29</b>	<b>\$ (1,067,355.71)</b>	<b>\$ 576,406.33</b>	<b>\$ 169,534,583.25</b>

During the year ended June 30, 2014, the University incurred \$3,125,505.84 in interest expense related to the acquisition and construction of capital assets.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University has pledged machinery and equipment with a carrying value of \$4,129,102.71 as security for Siemens Public Inc. Energy Services Agreement note. Additional information regarding the note can be found in Note 8.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 1,617,900.22
Accrued Payroll	195,327.23
Contract Retainage	112,507.43
Other	49,185.18
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,974,920.06</b>

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

In connection with the long-term debt the University has a letter of credit in the amount of \$9,656,415 with Wells Fargo Bank, National Association. The letter of credit serves as a credit enhancement to the bonds and expires December 31, 2014.

Short-term debt activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Draws	Repayments	Balance June 30, 2014
Letter of Credit	\$ 0.00	\$ 291,155.31	\$ 291,155.31	\$ 0.00

### NOTE 8 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 37,715,000.00	\$ 0.00	\$ 1,120,000.00	\$ 36,595,000.00	\$ 1,180,000.00
Certificates of Participation	20,175,000.00		545,000.00	19,630,000.00	560,000.00
Plus: Unamortized Premium	90,076.95		3,106.10	86,970.85	
Total Revenue Bonds and Certificates of Participation Payable, Net	57,980,076.95	-	1,668,106.10	56,311,970.85	1,740,000.00
Notes Payable	5,790,000.00		190,000.00	5,600,000.00	283,300.01
Compensated Absences	3,110,396.00	2,170,353.00	2,139,956.00	3,140,793.00	489,963.72
<b>Total Long-Term Liabilities</b>	<b>\$ 66,880,472.95</b>	<b>\$ 2,170,353.00</b>	<b>\$ 3,998,062.10</b>	<b>\$ 65,052,763.85</b>	<b>\$ 2,513,263.73</b>

Additional information regarding the blended component unit is included in Note 17.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014	See Table Below
<b>Revenue Bonds Payable</b>							
<b>Dormitory System</b>							
Cypress Hall Project	2010A	3.00-4.00%**	03/01/2017	\$ 2,455,000.00	\$ 1,170,000.00	\$ 1,285,000.00	(1)
Cypress Hall Project	2010B	4.525-6.623%**	03/01/2042	18,435,000.00		18,435,000.00	(1)
Student Housing - Courtyard Apartments	2001A	3.91%*	07/01/2031	11,385,000.00	1,890,000.00	9,495,000.00	(2)
Total Dormitory System				<u>32,275,000.00</u>	<u>3,060,000.00</u>	<u>29,215,000.00</u>	
<b>Auxiliaries</b>							
Dining System	2006B	3.75-5.00%	09/25/2015	518,060.00	380,000.00	138,060.00	
Recreational Facilities	2006B	3.75-5.00%	09/25/2020	816,940.00	370,000.00	446,940.00	
University Center Expansion Supplement	2006B	3.75-5.00%	09/25/2026	1,965,000.00	510,000.00	1,455,000.00	
University Center Renovations	2003B	4.00-4.75%	03/10/2028	3,100,000.00	1,020,588.23	2,079,411.77	
Auxiliary Services Building	2003B	4.00-4.75%	03/10/2028	1,550,000.00	510,294.13	1,039,705.87	
Recreational Facilities	2003B	4.00-4.75%	03/10/2028	620,000.00	204,117.64	415,882.36	
Multipurposes Facility Athletic Field House	2008A	3.00-5.00%	10/01/2033	2,055,000.00	250,000.00	1,805,000.00	
Total Auxiliaries				<u>10,625,000.00</u>	<u>3,245,000.00</u>	<u>7,380,000.00</u>	
<b>Certificates of Participation</b>							
University Village Apartments	2004	3.50-5.00%	03/01/2034	9,540,000.00	2,050,000.00	7,490,000.00	(1)
Oak Hall Project	2006	4.00-5.00%	03/01/2037	13,770,000.00	1,630,000.00	12,140,000.00	(1)
Total Certificates of Participation				<u>23,310,000.00</u>	<u>3,680,000.00</u>	<u>19,630,000.00</u>	
<b>Total Revenue Bonds Payable and Certificates of Participation (principal only)</b>				<u>\$ 66,210,000.00</u>	<u>\$ 9,985,000.00</u>	<u>56,225,000.00</u>	
Plus: Unamortized Premium						<u>86,970.85</u>	
<b>Total Revenue Bonds Payable and Certificates of Participation, Net</b>						<u>\$ 56,311,970.85</u>	

\* For variable rate debt, interest rates in effect at June 30, 2014 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

\*\* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Courtyard Lease Revenues	\$ 13,583,894.70	\$ 1,078,493.55	\$ 305,000.00	\$ 369,735.30	32%
(2)	Oak, Village and Cypress Hall Lease Revenues	72,493,587.10	3,554,677.25	975,000.00	2,069,500.02	48%

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Under an irrevocable letter of credit issued by Wells Fargo Bank, National Association, the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of 1.3% of the amount of the bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wells Fargo Bank, National Association in which it has agreed upon termination of the letter of credit or upon a bond tender event to repay all amounts that are drawn under the letter of credit. Interest at the rate of prime plus 1% for the first 90 days will be incurred. At June 30, 2014, no drawings had been made under the letter of credit.

If the remarketing agent is unable to resell any bonds that are “put” within 90 days of the “put” date, the University has a take-out agreement with Wells Fargo Bank, National Association to convert the amount of bonds “put” to an installment loan payable over a five-year period bearing an adjustable interest rate equal to the bank’s prime lending rate plus 1.5%. The take out agreement expires on the letter of credit expiration date. Per the take out agreement, the structure of the installment loan cannot allow the bond principal to be retired faster than originally prescribed in the bond indenture amortization schedule. If the take out agreement were to be exercised because the entire issue of \$9,495,000 of demand bonds were “put” and not resold, the University

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

would be required to pay the amounts referenced in the table below assuming a 4.75% interest rate.

<u>Fiscal Year</u>	Potential Annual Requirements	
	Installment Loan Payable @ 4.75%	
	Principal	Interest
2015	\$ 305,000.00	\$ 451,012.50
2016	325,000.00	436,525.00
2017	340,000.00	421,087.50
2018	365,000.00	404,937.50
2019	385,000.00	387,600.00
2020-2024	2,315,000.00	1,639,700.00
2025-2029	3,105,000.00	1,018,875.00
2030-2032	2,355,000.00	228,000.00
<b>Total Requirements</b>	<b>\$ 9,495,000.00</b>	<b>\$ 4,987,737.50</b>

The letter of credit is renegotiated each year. The letter of credit bank must give 180 days advance cancellation notice. As of June 30, 2014, the letter of credit expires on December 31, 2014.

**D. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2014, are as follows:

<u>Fiscal Year</u>	Annual Requirements						
	Revenue Bonds Payable			Certificates of Participation		Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2015	\$ 1,180,000.00	\$ 1,517,196.24	\$ 364,987.80	\$ 560,000.00	\$ 874,257.26	\$ 283,300.01	\$ 278,230.75
2016	1,225,000.00	1,482,578.32	353,263.60	580,000.00	852,438.76	408,609.90	196,219.46
2017	1,200,000.00	1,450,033.73	340,770.60	610,000.00	827,922.09	434,058.44	181,400.59
2018	1,260,000.00	1,413,243.89	327,701.00	630,000.00	803,134.59	462,187.99	165,620.21
2019	1,315,000.00	1,371,403.80	313,670.40	655,000.00	777,024.43	477,603.54	148,960.27
2020-2024	7,265,000.00	6,174,810.22	1,326,948.80	3,735,000.00	702,002.10	1,440,750.88	560,278.42
2025-2029	8,370,000.00	4,769,440.39	824,538.00	4,665,000.00	2,505,956.30	1,979,173.95	228,677.96
2030-2034	6,785,000.00	3,374,236.87	184,512.00	5,825,000.00	1,330,514.63	114,315.29	744.95
2035-2039	4,680,000.00	1,940,197.38		2,370,000.00	186,637.53		
2040-2042	3,315,000.00	371,528.13					
<b>Total Requirements</b>	<b>\$ 36,595,000.00</b>	<b>\$ 23,864,668.97</b>	<b>\$ 4,036,392.20</b>	<b>\$ 19,630,000.00</b>	<b>\$ 8,859,887.69</b>	<b>\$ 5,600,000.00</b>	<b>\$ 1,760,132.62</b>

Interest on the variable rate 2001A revenue bonds is calculated at 0.05% at June 30, 2014. Interest rates are reset weekly by the remarketing agent based upon the LLC's credit rating and market conditions.

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

**E. Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonds are not included in the University's financial statements. At June 30, 2014, the outstanding balance of prior year defeased bonds was \$140,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	\$ 4,500,000.00	\$ 0.00	\$ 4,500,000.00
Refunding Series 1998B Bonds	BB&T Bank	3.19%	10/01/2018	1,470,000.00	370,000.00	1,100,000.00
<b>Total Notes Payable</b>				<u>\$ 5,970,000.00</u>	<u>\$ 370,000.00</u>	<u>\$ 5,600,000.00</u>

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

### NOTE 9 - DERIVATIVE INSTRUMENTS

The derivative instrument held at June 30, 2014 is as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2014	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
<i>Hedging Derivative Instrument</i>					
<i>Cash Flow Hedge</i>					
Pay fixed, receive variable interest	\$ 9,495,000	Deferred Outflow of	\$ (105,807.66)	Hedging Derivative	\$ (2,101,545.44)
<b>Total Derivative Instruments</b>			<u>\$ (105,807.66)</u>		<u>\$ (2,101,545.44)</u>

Hedging derivative instruments held at June 30, 2014 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed, Receive Variable Interest Rate Swap	Hedge Cash Flows for 2001A Bonds	\$ 9,495,000	11/01/01	07/01/31	Pay 3.955%, Receive 67% of 1-month USD-LIBOR-BBA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

*Basis Risk:* The University is exposed to basis risk because the pay fixed interest rate swap because the variable-rate payments received by the University on the hedging derivative is based on a different rate than the University pays on its 2001A Series variable rate debt. As of June 30, 2014, the interest rate on the University's pay-fixed interest rate swap is benchmarked to 67% of 1 month LIBOR, which is 0.10%. The variable-interest rate paid on the University's is not benchmarked to a reference rate but is reset weekly by the remarketing agent based upon market conditions and the University's credit rating. At June 30, 2014 the interest rate upon the demand bond was 0.05%.

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

### NOTE 10 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for land and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 233,590.53
2016	19,513.21
<b>Total Minimum Lease Payments</b>	<b>\$ 253,103.74</b>

Rental expense for all operating leases during the year was \$234,440.84.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 11 - 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>	\$ 30,803,982.47	\$ 1,890.00	\$ 8,701,051.41	\$ 179,786.79	\$ 21,921,254.27
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 9,015,542.00	\$ 35,270.61	\$ 2,599,307.39		\$ 6,380,964.00
Dining	4,651,795.71	51,711.53	1,329,130.28		3,270,953.90
Student Union Services	29,178.93	5,547.00			23,631.93
Health, Physical Education, and Recreation Services	1,810,711.30		743,327.40		1,067,383.90
Bookstore	3,612,180.19	49,243.52	623,067.33		2,939,869.34
Parking	295,257.17			125,875.00	169,382.17
Athletic	295,254.26	7,472.40			287,781.86
Motor Pool	284,896.05	261,673.06			23,222.99
Laundry	14,362.47				14,362.47
Lyceum	142,894.43				142,894.43
Physical Plant	207,937.17	175,844.73			32,092.44
Printing	361,260.55	361,260.55			0.00
Vending	73,040.51				73,040.51
Sales and Services of Education and Related Activities	691,047.58	30,359.53			660,688.05
<b>Total Sales and Services</b>	<b>\$ 21,485,358.32</b>	<b>\$ 978,382.93</b>	<b>\$ 5,294,832.40</b>	<b>\$ 125,875.00</b>	<b>\$ 15,086,267.99</b>

\* The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts.

### NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 32,471,584.31	\$ 653,202.54	\$ 1,357,925.05	\$ 2,782.00	\$ 4,018.20	\$ 0.00	\$ 34,489,512.10
Research	252,118.44	22,386.31	127,095.99				401,600.74
Public Service	1,151,722.02	56,257.79	355,676.18	19,408.00	356.37		1,583,420.36
Academic Support	7,696,938.68	1,739,176.09	2,024,813.06	2,241.08			11,463,168.91
Student Services	4,025,877.99	110,651.26	1,682,072.95	1,000.00			5,819,602.20
Institutional Support	8,555,957.94	444,790.29	1,965,816.98		744.56		10,967,309.77
Operations and Maintenance of Plant	5,459,052.49	1,280,002.27	1,115,368.46		2,036,256.55		9,890,679.77
Student Financial Aid	117,377.17		16,278.51	9,183,997.02			9,317,652.70
Auxiliary Enterprises	4,641,304.07	4,319,317.64	10,207,300.14	2,811.98	1,780,116.84		20,950,850.67
Depreciation						5,279,873.85	5,279,873.85
<b>Total Operating Expenses</b>	<b>\$ 64,371,933.11</b>	<b>\$ 8,625,784.19</b>	<b>\$ 18,852,347.32</b>	<b>\$ 9,212,240.08</b>	<b>\$ 3,821,492.52</b>	<b>\$ 5,279,873.85</b>	<b>\$ 110,163,671.07</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 13 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$50,191,829.17, of which \$23,228,361.00 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$2,018,544.57 and \$1,393,701.66, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$2,018,544.57, \$1,994,721.25, and \$1,177,679.00, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2014, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$50,191,829.17, of which \$21,327,802.23 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,458,821.67 and \$1,279,668.13, respectively.

### **NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS**

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the University contributed 5.40% 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, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$2,406,032.81, \$2,350,405.73, and \$2,194,917.59, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$196,047.12, \$195,128.02, and \$228,271.43, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### NOTE 15 - RISK MANAGEMENT

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

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

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

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

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

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Examples of such coverage are workers' compensation for non-appropriated employees,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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student accident, student health, boiler and machinery accident and hazardous substance, internship liability, and commercial inland marine for music and related equipment, biodiesel, and fine arts.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

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

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

### NOTE 16 - 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 \$1,817,148.76 and on other purchases were \$1,348,119.46 at June 30, 2014.
- 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 17 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2014, is presented as follows:

#### *Condensed Statement of Net Position June 30, 2014*

	UNCP	UNCP Foundation Inc. and Subsidiaries	Eliminations	Total
<b>ASSETS</b>				
Current Assets	\$ 20,015,113.11	\$ 5,078,409.25	\$ (1,824,268.86)	\$ 23,269,253.50
Capital Assets	159,568,954.61	9,965,628.64		169,534,583.25
Other Noncurrent Assets	22,058,022.74	47,193,456.57	(39,981,042.76)	29,270,436.55
Total Assets	201,642,090.46	62,237,494.46	(41,805,311.62)	222,074,273.30
Deferred Outflows of Resources		2,101,545.44		2,101,545.44
<b>LIABILITIES</b>				
Current Liabilities	5,394,999.82	2,122,750.79	(1,824,268.86)	5,693,481.75
Noncurrent Liabilities	54,841,285.29	51,359,559.05	(39,981,042.76)	66,219,801.58
Total Liabilities	60,236,285.11	53,482,309.84	(41,805,311.62)	71,913,283.33
<b>NET POSITION</b>				
Net Investment in Capital Assets	107,238,954.61	619,330.13		107,858,284.74
Restricted - Nonexpendable	11,468,162.26	3,655,598.24		15,123,760.50
Restricted - Expendable	8,038,620.80	6,101,878.76	1,759,062.76	15,899,562.32
Unrestricted	14,660,067.68	479,922.93	(1,759,062.76)	13,380,927.85
Total Net Position	\$ 141,405,805.35	\$ 10,856,730.06	\$ 0.00	\$ 152,262,535.41

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

***Condensed Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2014***

	<b>UNCP</b>	<b>UNCP Foundation Inc. and Subsidiaries</b>	<b>Eliminations</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Student Tuition and Fees, Net	\$ 21,921,254.27	\$ 0.00	\$ 0.00	\$ 21,921,254.27
Sales and Services, Net	15,117,123.05	3,820,316.73	(3,851,171.79)	15,086,267.99
Other Operating Revenue	970,203.20	31,992.17		1,002,195.37
Total Operating Revenues	<u>38,008,580.52</u>	<u>3,852,308.90</u>	<u>(3,851,171.79)</u>	<u>38,009,717.63</u>
<b>OPERATING EXPENSES</b>				
Salaries and Benefits	64,371,933.11			64,371,933.11
Supplies and Materials	8,451,591.53	204,108.11	(29,915.45)	8,625,784.19
Services	21,061,711.26	184,014.10	(2,393,378.04)	18,852,347.32
Scholarships and Fellowships	9,212,240.08	123,482.80	(123,482.80)	9,212,240.08
Utilities	3,498,005.62	323,486.90		3,821,492.52
Depreciation	4,959,735.14	320,138.71		5,279,873.85
Total Operating Expenses	<u>111,555,216.74</u>	<u>1,155,230.62</u>	<u>(2,546,776.29)</u>	<u>110,163,671.07</u>
Operating Income (Loss)	<u>(73,546,636.22)</u>	<u>2,697,078.28</u>	<u>(1,304,395.50)</u>	<u>(72,153,953.44)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Appropriations	51,893,896.44			51,893,896.44
Noncapital Grants - Student Financial Aid	17,986,905.65			17,986,905.65
Other Noncapital Grants	2,865,079.56			2,865,079.56
Noncapital Gifts	516,343.47	552,193.47	(143,032.96)	925,503.98
Investment Income, Net	2,325,044.42	618,942.48	(91,885.97)	2,852,100.93
Interest and Fees on Debt	(2,390,464.49)	(2,688,373.10)	1,696,697.86	(3,382,139.73)
Federal Interest Subsidy on Debt		368,549.75		368,549.75
Other Nonoperating Expenses	(194,924.33)	(247,218.42)	(157,383.43)	(599,526.18)
Net Nonoperating Revenues (Expenses)	<u>73,001,880.72</u>	<u>(1,395,905.82)</u>	<u>1,304,395.50</u>	<u>72,910,370.40</u>
Capital Appropriations	2,594,527.00			2,594,527.00
Capital Grants	164,920.73	64,925.00		229,845.73
Capital Gifts		15,000.00		15,000.00
Additions to Endowments	143,073.59	318,379.95		461,453.54
Increase in Net Position	<u>2,357,765.82</u>	<u>1,699,477.41</u>		<u>4,057,243.23</u>
<b>NET POSITION</b>				
Net Position as Restated, July 1, 2013	<u>139,048,039.53</u>	<u>9,157,252.65</u>		<u>148,205,292.18</u>
Net Position, June 30, 2014	<u>\$ 141,405,805.35</u>	<u>\$ 10,856,730.06</u>	<u>\$ 0.00</u>	<u>\$ 152,262,535.41</u>



**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

***Condensed Statement of Cash Flows***  
***June 30, 2014***

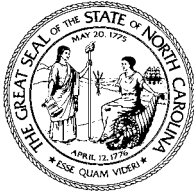
	<u>UNCP</u>	<u>UNCP Foundation Inc. and Subsidiaries</u>	<u>Total</u>
Net Cash Provided (Used) by Operating Activities	\$ (71,314,283.35)	\$ 3,185,470.39	\$ (68,128,812.96)
Net Cash Provided by Noncapital Financing Activities	72,739,880.39	928,321.94	73,668,202.33
Net Cash Used by Capital and Related Financing Activities	(2,703,405.37)	(2,911,675.48)	(5,615,080.85)
Net Cash Provided (Used) by Investing Activities	<u>201,671.79</u>	<u>(61,429.87)</u>	<u>140,241.92</u>
Net Increase in Cash and Cash Equivalents	(1,076,136.54)	1,140,686.98	64,550.44
Cash and Cash Equivalents, July 1, 2013	<u>22,209,756.25</u>	<u>927,279.23</u>	<u>23,137,035.48</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 21,133,619.71</u>	<u>\$ 2,067,966.21</u>	<u>\$ 23,201,585.92</u>

The University is party to a capital lease agreement with the Foundation, with an outstanding balance of \$39,350,000 at June 30, 2014. The Condensed Statement of Net Position includes the elimination of the current and noncurrent receivable recorded by the Foundation, in the amount of \$975,000 and \$38,375,000, respectively. Consequently, the equal and corresponding current and noncurrent portion of the capital lease payable recorded by the University was eliminated.

**NOTE 18 - NET POSITION RESTATEMENTS**

As of July 1, 2013, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2013 Net Position as Previously Reported	\$ 148,263,007.94
Restatements:	
Correction of Errors	<u>(57,715.76)</u>
<b>July 1, 2013 Net Position as Restated</b>	<u><u>\$ 148,205,292.18</u></u>



Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA

## Office of the State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Pembroke, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 15, 2014. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Pembroke Foundation, Inc. and Subsidiaries, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

#### Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 15, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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