



STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE UNIVERSITY OF NORTH CAROLINA

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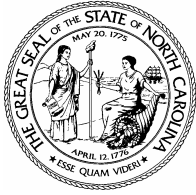
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STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, 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, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The University's response is included following the second finding. The first finding has been resolved.

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.

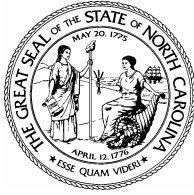
Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 30, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The University of North Carolina at Pembroke, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The University of North Carolina at Pembroke's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC, the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and The UNCP Student Housing Foundation, LLC were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Pembroke and its discretely presented component units as

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 9, 2008

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

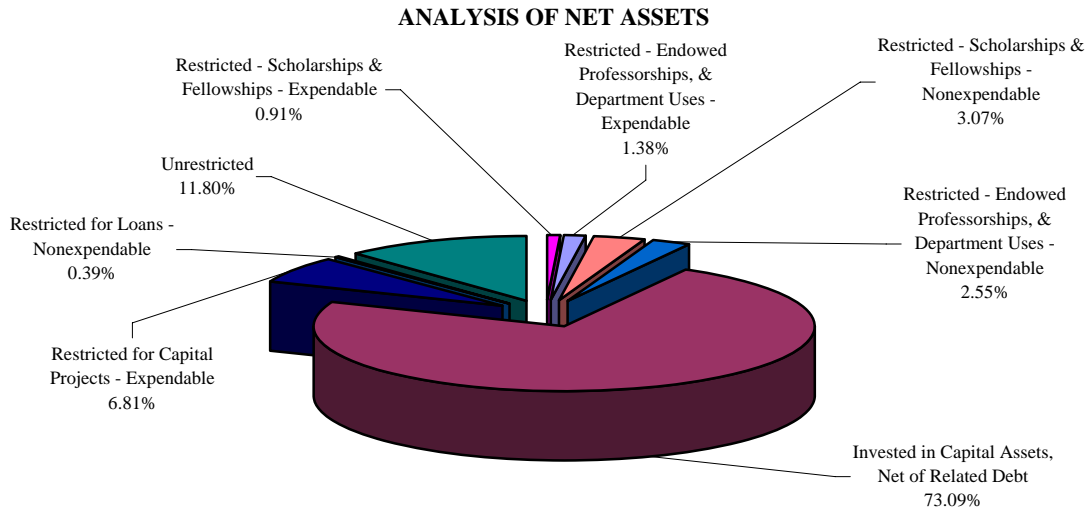
Overview of the Financial Statement Information

The University of North Carolina at Pembroke (the University) provides the following discussion and analysis as an overview of the financial position and activities of the University for the year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University's financial report includes three financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The difference between total assets and total liabilities - net assets - is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

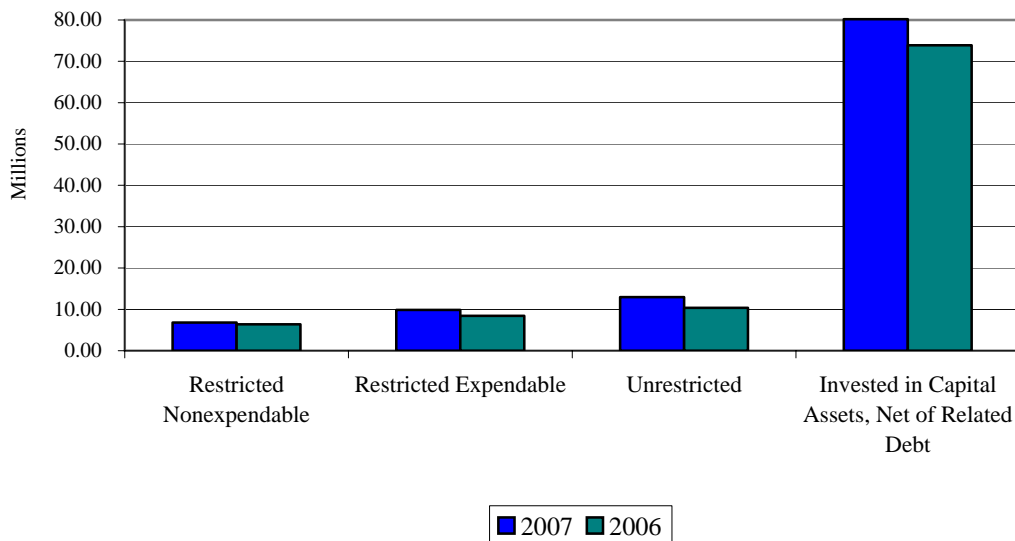


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The University's endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donor. Funds functioning as endowments are restricted gifts and/or unrestricted funds that have been designated by the University for long-term investment purposes, although amounts are not subject to donor restrictions requiring the University to preserve the principal in perpetuity. Endowments increased \$473,303.78. Programs supported by endowments include scholarships, professorships, and various other programs and activities. The University uses its endowments to support operations in a way that strikes a balance between generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods.

COMPARISON OF NET ASSETS



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The University's Statement of Net Assets at June 30, 2007, reflects that the University continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls and conservative utilization of debt.

The University's financial position remained strong at June 30, 2007, with total assets of \$165,596,947.95.

Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets:				
Current Assets	\$ 21,619,168.78	\$ 19,978,271.68	\$ 1,640,897.10	8.2%
Noncurrent Assets:				
Capital	127,271,168.28	95,507,274.18	31,763,894.10	33.3%
Other	16,706,610.89	14,066,973.81	2,639,637.08	18.8%
Total Assets	<u>165,596,947.95</u>	<u>129,552,519.67</u>	<u>36,044,428.28</u>	27.8%
Liabilities:				
Current Liabilities	6,086,865.45	5,054,843.14	1,032,022.31	20.4%
Noncurrent Liabilities	47,545,016.66	23,804,719.26	23,740,297.40	99.7%
Total Liabilities	<u>53,631,882.11</u>	<u>28,859,562.40</u>	<u>24,772,319.71</u>	85.8%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	81,829,308.76	75,501,364.18	6,327,944.58	8.4%
Restricted	16,927,928.97	14,828,883.69	2,099,045.28	14.2%
Unrestricted	13,207,828.11	10,362,709.40	2,845,118.71	27.5%
Total Net Assets	<u>\$ 111,965,065.84</u>	<u>\$ 100,692,957.27</u>	<u>\$ 11,272,108.57</u>	11.2%

The increase in capital assets is primarily in buildings with a 36% increase. Three buildings were completed during the year at a cost of \$5.9 million plus the construction in progress for those buildings of \$5.6 million. Oak Hall, a dormitory leased from one of our foundations, was also added for \$24 million. The University added one new endowment in fiscal year (FY) 2007 and received contributions of \$473,303.78 for existing endowments. Endowment investments increased 17.45%.

University liabilities totaled \$53,631,882.11 at June 30, 2007. In 2004, the University entered into a capital lease agreement for student housing. The capital lease was amended in FY07 to include the lease for Oak Hall. At June 30, \$2,014,000.00 Lease Payable is reflected under current liabilities with \$32,157,859.52 under noncurrent liabilities. Current liabilities of \$6,086,865.45 at June 30, 2007, consist primarily of this lease, trade accounts, accrued compensation, current portion of other debt payable for capital facilities, and other miscellaneous payables.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

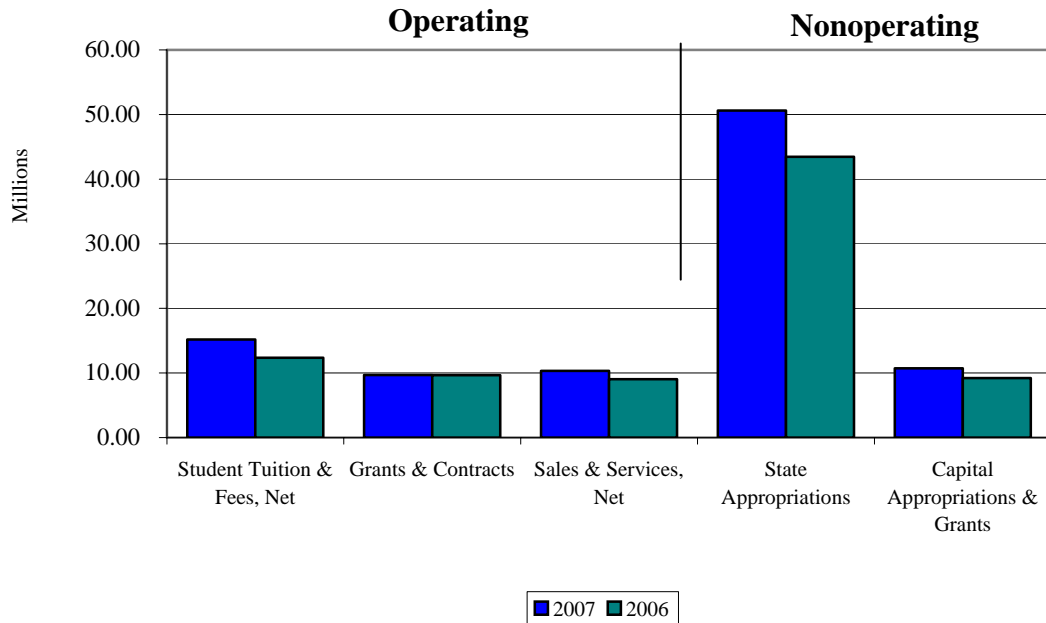
Noncurrent liabilities consist of:

	<u>2007</u>	<u>2006</u>
Deposits Payable	\$ 232,448.88	\$ 202,523.88
Funds Held for Others	671,001.90	1,084,430.52
U.S. Government Grants Refundable	1,290,032.80	1,290,032.80
Accrued Compensated Absences	2,569,245.00	2,362,505.00
Notes Payable	404,428.56	
Capital Lease Payable	32,157,859.52	10,055,227.06
Bonds Payable	10,220,000.00	8,810,000.00
Total	\$ 47,545,016.66	\$ 23,804,719.26

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State appropriations, noncapital grants, and noncapital gifts as nonoperating revenues.

ANALYSIS OF MAJOR REVENUE SOURCES



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total revenues increased from \$86,372,709.77 to \$98,950,494.64. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30 is as follows:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2007	2006	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 15,176,812.11	\$ 12,344,496.91	\$ 2,832,315.20	22.9 %
Grants and Contracts	9,676,213.89	9,656,583.52	19,630.37	0.2 %
Sales and Services, Net	10,323,641.73	9,047,264.71	1,276,377.02	14.1 %
Other Operating Revenues	198,413.15	148,224.51	50,188.64	33.9 %
Net Operating Revenues	35,375,080.88	31,196,569.65	4,178,511.23	13.4 %
Operating Expenses	87,678,386.07	76,787,105.81	10,891,280.26	14.2 %
Operating Loss	(52,303,305.19)	(45,590,536.16)	(6,712,769.03)	18.9 %
Nonoperating Revenues:				
State Appropriations	50,606,592.85	43,451,040.09	7,155,552.76	16.5 %
Noncapital Grants and Gifts	806,014.85	587,537.39	218,477.46	37.2 %
Other Nonoperating Revenues, Net	973,305.28	571,177.91	402,127.37	70.4 %
Net Nonoperating Revenues	52,385,912.98	44,609,755.39	7,776,157.59	17.4 %
Income Before Other Revenues	82,607.79	(980,780.77)	1,063,388.56	(87.0) %
Capital Grants	7,321,897.00	7,838,387.67	(516,490.67)	(6.6) %
Capital Appropriations	3,394,300.00	1,375,800.00	2,018,500.00	146.7 %
Additions to Permanent Endowments	473,303.78	1,352,197.06	(878,893.28)	(65.0) %
Total Other Revenues	11,189,500.78	10,566,384.73	623,116.05	5.9 %
Increase in Net Assets	11,272,108.57	9,585,603.96	1,686,504.61	17.0 %
Net Assets				
Beginning of Year	100,692,957.27	91,107,353.31	9,585,603.96	10.5 %
End of Year	\$ 111,965,065.84	\$ 100,692,957.27	\$ 11,272,108.57	11.2 %

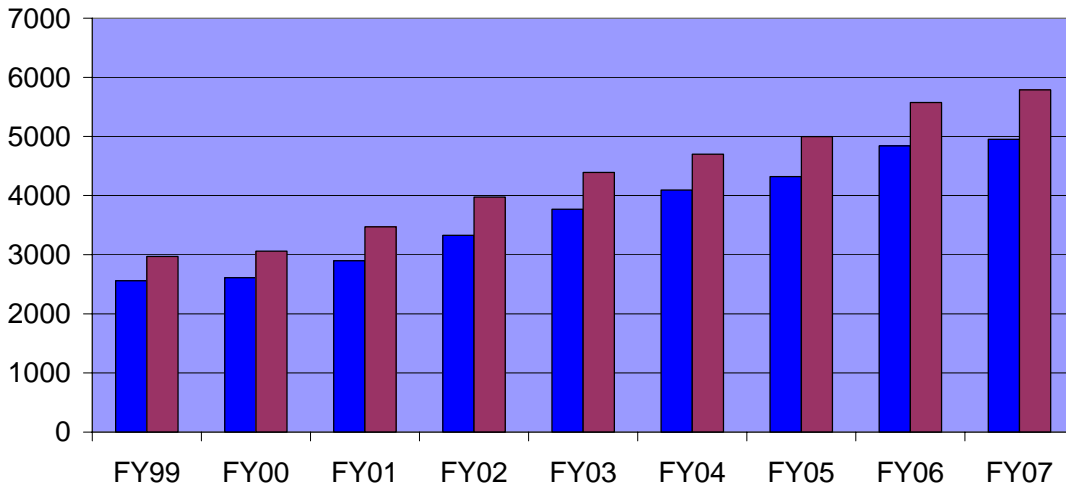
Operating revenues increased as a result of enrollment increases, which in turn resulted in increased tuition and fees and sales and services revenue. Directly related to increased enrollment is the increased instructional and financial aid costs. Salaries and benefits make up \$5.4 million of the increase in operating expenses followed by services that are up \$5.2 million. Scholarships are up \$.8 million. The University continues to aggressively seek alternate sources of funding to supplement various academic pursuits and student tuition and fee cost. This effort coupled with prudent management practices continues to serve the University's mission to promote excellence in teaching and learning.

Total operating loss for FY2007 was \$52,303,305.19. Since the State of North Carolina appropriation is not included within operating revenue per Governmental Accounting Standards Board Statement No. 35, the University shows a significant operating loss.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Enrollment continues to climb toward the University's goal of 6,000 students. On-campus fall full time equivalent (FTE) enrollment increased 2.3% from FY06 to FY07 with a corresponding 3.8% increase in headcount (HC). Distance education fall enrollment experienced a decrease primarily resulting from a change in University policy on internet courses. Internet courses taken by students also taking classes on campus are now counted in on campus enrollment. Internet courses taken by distance-only students are counted in distance enrollment. This change resulted in a shift in numbers from distance to on-campus enrollment. The net result continues to be an increase in enrollment for fall 2006 (FY07).

**THE UNIVERSITY OF NC AT PEMBROKE
Total Enrollment 1999-2007**

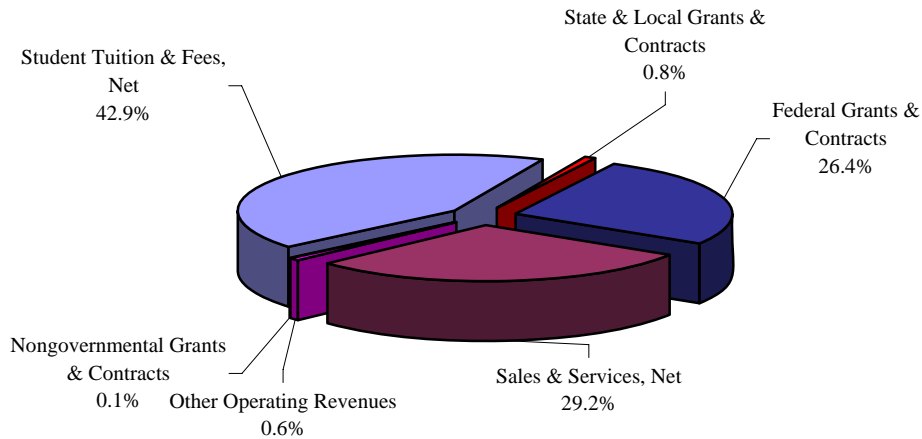


	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Fall FTE	2,560	2,611	2,897	3,328	3,768	4,110	4,320	4,841	4,950
Fall Count	2,971	3,059	3,471	3,975	4,390	4,698	4,997	5,575	5,786

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

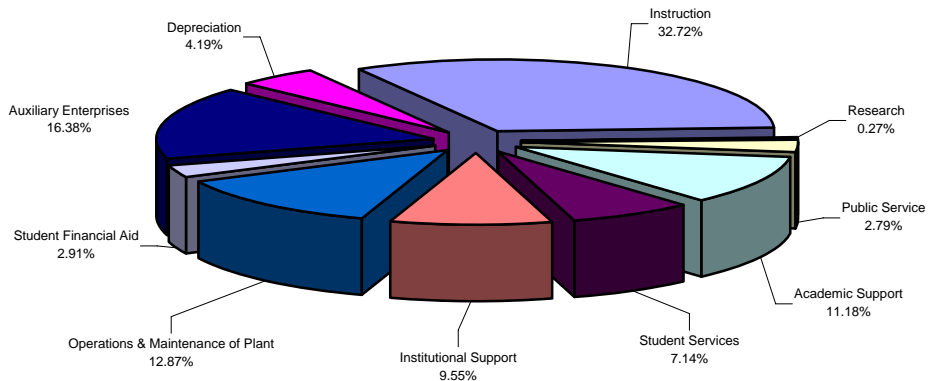
The following graph details operating revenues. As previously noted, State appropriations of \$50,606,592.85 are considered nonoperating revenues; therefore, they are not included in the graph. State appropriations increased \$7,155,552.76 or 16.5% this year.

OPERATING REVENUES



The University has successfully sought a balance between increasing performance and service while reducing the overall cost of providing the service. Operating expenses totaling \$87,678,386.07 include salaries and benefits of \$47,190,107.86, supplies and materials of \$12,097,724.45, services of \$18,825,093.59, scholarships and fellowships of \$2,483,889.78, utilities of \$3,411,500.65, and depreciation of \$3,670,069.74. The following two graphs detail the current use of funds by function and natural (object) classification.

OPERATING EXPENSES BY FUNCTION

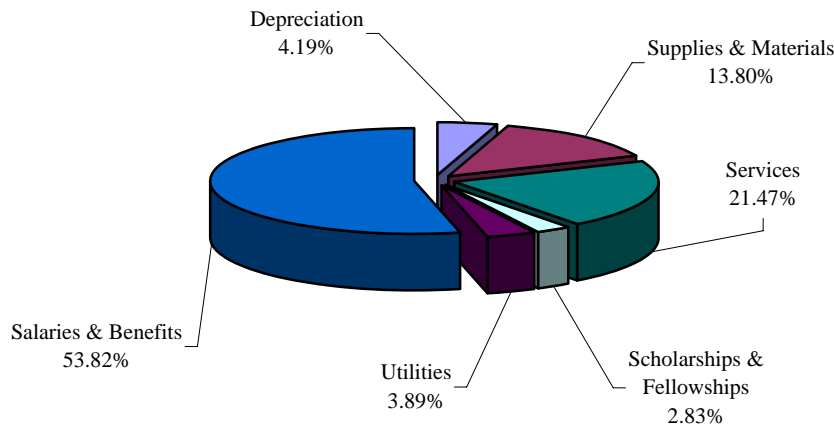


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A comparative summary of the University's expenses by functional classification for the years ended June 30 is as follows:

	2007	2006
Instruction	\$ 28,685,065.49	\$ 24,931,852.97
Research	238,326.75	51,191.64
Public Service	2,446,710.72	2,378,152.50
Academic Support	9,798,105.16	7,069,694.49
Student Services	6,255,981.49	5,069,707.39
Institutional Support	8,381,159.82	7,511,492.11
Operations & Maintenance of Plant	11,285,916.78	10,814,450.86
Student Financial Aid	2,558,544.64	1,775,827.21
Auxiliary Enterprises	14,358,505.48	13,632,892.07
Depreciation	3,670,069.74	3,551,844.57
Total Operating Expenses	\$ 87,678,386.07	\$ 76,787,105.81

OPERATING EXPENSES BY OBJECT



A comparative summary of the University's expenses by object class for the years ended June 30 is as follows:

	2007	2006
Salaries and Benefits	\$ 47,190,107.86	\$ 41,832,568.60
Supplies and Materials	12,097,724.45	12,685,895.23
Services	18,825,093.59	13,647,628.92
Scholarships and Fellowships	2,483,889.78	1,727,628.52
Utilities	3,411,500.65	3,341,539.97
Depreciation	3,670,069.74	3,551,844.57
Total Operating Expenses	\$ 87,678,386.07	\$ 76,787,105.81

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital and Debt Activities

The University has completed over 95% of its current State general obligation bond projects. Projects in the construction phase include the Auxiliary Services Building, the Biotechnology Building, and the renovation of the Lowry Building.

The University borrowed \$3,300,000 from the UNC System 2006 Pool General Revenue Bonds to refund the 2000 Pool Series for Dining and Recreation at a significant savings and to supplement the 2003 Pool General Revenue Bonds funding the expansion of the Chavis University Center. This expansion is nearing completion.

The University borrowed \$2,000,000 in November 2007, to begin construction on a football and multipurpose facility in anticipation of issuing bonds in 2008. The bonds were issued in April 2008, and proceeds were used to pay off the loan. Student fees will be used to retire the bond debt.

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

Economic Factors that will Affect the Future

Fiscal year 2007 saw funding for higher education taking an upturn and the outlook for fiscal year 2008 is even better. The most obvious positive financial recovery was seen in terms of a higher salary increase for faculty and staff. We are hopeful that such a trend will continue for the next several years. We know enrollment will continue to increase for the University and that increase brings more faculty and staff along with increased operating budgets. The addition of football at the University is having a positive impact on many operations. Bookstore sales are up. Food service revenue is up. Football has also had a favorable impact on enrollment.

The State continues to fund repair and renovations and while we could use more, a steady flow of such funding is very important to our capital maintenance program. We look for this pool of funding to at least remain steady, if not increase.

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 14,175,581.71
Restricted Cash and Cash Equivalents	2,412,805.74
Receivables, Net (Note 4)	3,621,690.30
Due from University Component Units	2,692.66
Inventories	1,057,511.90
Notes Receivable, Net (Note 4)	348,886.47
	<hr/>
Total Current Assets	21,619,168.78

Noncurrent Assets:

Restricted Cash and Cash Equivalents	6,042,990.67
Receivables, Net (Note 4)	150,044.43
Restricted Due from Primary Government	1,535,983.88
Endowment Investments	7,746,946.90
Other Investments	416,162.98
Notes Receivable, Net (Note 4)	814,482.03
Capital Assets - Nondepreciable (Note 5)	6,695,571.17
Capital Assets - Depreciable, Net (Note 5)	120,575,597.11
	<hr/>
Total Noncurrent Assets	143,977,779.17
	<hr/>
Total Assets	165,596,947.95

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,624,461.04
Due to Primary Government	13,909.55
Unearned Revenue	418,421.85
Interest Payable	117,011.57
Long-Term Liabilities - Current Portion (Note 8)	2,913,061.44
	<hr/>
Total Current Liabilities	6,086,865.45

Noncurrent Liabilities:

Deposits Payable	232,448.88
Funds Held for Others	671,001.90
U. S. Government Grants Refundable	1,290,032.80
Long-Term Liabilities (Note 8)	45,351,533.08
	<hr/>
Total Noncurrent Liabilities	47,545,016.66
	<hr/>
Total Liabilities	53,631,882.11

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2007

Exhibit A-1

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	81,829,308.76
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,441,467.19
Endowed Professorships	2,662,202.58
Departmental Uses	189,417.69
Loans	432,683.39
Expendable:	
Scholarships and Fellowships	1,024,439.91
Endowed Professorships	703,056.59
Departmental Uses	844,812.22
Capital Projects	7,629,849.40
Unrestricted	<u>13,207,828.11</u>
Total Net Assets	<u>\$ 111,965,065.84</u>

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

***The University of North Carolina at Pembroke
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 15,176,812.11
Federal Grants and Contracts	9,356,440.07
State and Local Grants and Contracts	271,605.17
Nongovernmental Grants and Contracts	48,168.65
Sales and Services, Net (Note 10)	10,323,641.73
Interest Earnings on Loans	7,645.06
Other Operating Revenues	190,768.09

Total Operating Revenues	35,375,080.88
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EXPENSES

Operating Expenses:

Salaries and Benefits	47,190,107.86
Supplies and Materials	12,097,724.45
Services	18,825,093.59
Scholarships and Fellowships	2,483,889.78
Utilities	3,411,500.65
Depreciation	3,670,069.74

Total Operating Expenses	87,678,386.07
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Operating Loss	(52,303,305.19)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	50,606,592.85
Noncapital Grants	623,258.45
Noncapital Gifts	182,756.40
Investment Income (Net of Investment Expense of \$96,399.77)	1,594,204.88
Interest and Fees on Debt	(538,371.39)
Other Nonoperating Expenses	(82,528.21)

Net Nonoperating Revenues	52,385,912.98
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Income Before Other Revenues	82,607.79
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Capital Appropriations	3,394,300.00
Capital Grants	7,321,897.00
Additions to Endowments	473,303.78

Increase in Net Assets	11,272,108.57
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NET ASSETS

Net Assets - July 1, 2006, as Restated (Note 16)	100,692,957.27
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Net Assets - June 30, 2007	\$ 111,965,065.84
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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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 34,673,296.10
Payments to Employees and Fringe Benefits	(46,922,869.43)
Payments to Vendors and Suppliers	(35,508,344.35)
Payments for Scholarships and Fellowships	(2,483,889.78)
Loans Issued	(287,004.60)
Collection of Loans	413,650.83
Interest Earned on Loans	9,849.45
Student Deposits Received	144,107.80
Student Deposits Returned	(114,182.80)
Other Payments	(436,553.25)
	<hr/>
Net Cash Used by Operating Activities	(50,511,940.03)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	50,606,592.85
Noncapital Grants	620,565.79
Noncapital Gifts	181,857.39
Additions to Endowments	473,303.78
	<hr/>
Cash Provided by Noncapital Financing Activities	51,882,319.81

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	1,960,000.00
State Capital Appropriations	3,606,265.38
Capital Grants	7,321,897.00
Acquisition and Construction of Capital Assets	(10,912,801.20)
Principal Paid on Capital Debt and Leases	(1,140,682.94)
Interest and Fees Paid on Capital Debt and Leases	(538,371.39)
Other Receipts	3,680.24
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	299,987.09

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	3,511,565.67
Investment Income	1,577,930.57
Purchase of Investments and Related Fees	(4,497,357.82)
	<hr/>
Net Cash Provided by Investing Activities	592,138.42
	<hr/>
Net Increase in Cash and Cash Equivalents	2,262,505.29
Cash and Cash Equivalents - July 1, 2006	20,368,872.83
	<hr/>
Cash and Cash Equivalents - June 30, 2007	\$ 22,631,378.12

The University of North Carolina at Pembroke
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3

Page 2

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

Operating Loss	\$ (52,303,305.19)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,670,069.74
Allowances, Write-Offs, and Amortizations	(6,718.87)
Nonoperating Other Income	9,261.37
Changes in Assets and Liabilities:	
Receivables (Net)	(1,110,357.18)
Inventories	(233,906.32)
Accounts Payable and Accrued Liabilities	(943,593.34)
Due to Primary Government	(834.98)
Interest Payable	15,495.28
Unearned Revenue	418,421.85
Funds Held for Others	(415,889.62)
Compensated Absences	232,846.00
Deposits Payable	29,925.00
Note Principal Repayments	413,650.83
Notes Issued	(287,004.60)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (50,511,940.03)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 14,175,581.71
Restricted Cash and Cash Equivalents	2,412,805.74
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,042,990.67
	<hr/>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 22,631,378.12</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 24,616,632.46
Change in Fair Value of Investments	297,885.27
Increase in receivables related to nonoperating income	3,591.67
Loss on Disposal of Capital Assets	95,469.82

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

The University of North Carolina at Pembroke Foundations
Statement of Financial Position
June 30, 2007

Exhibit B-1

	The University of North Carolina at Pembroke Foundation, Inc.	The UNCP University Foundation, LLC	The UNCP Student Housing Foundation, LLC
ASSETS			
Cash and Cash Equivalents	\$ 547,301	\$ 45,300	\$ 243,542
Pooled Investments held by Fiscal Agent	2,355,715		
Accrued Interest Receivable	2,153		22,933
Cash Surrender Value of Life Insurance	43,131		
Security Deposits Held in Trust		51,000	
Assets Held by Trustees		1,551,944	4,420,893
Accounts Receivable	250,145	8,308	
Unconditional Promises to Give, Net	804,206		
Prepaid Expenses		25,506	
Deferred Financing Costs, Net		480,458	
Construction in Progress			11,704,731
Property and Equipment, Net	4,444,691	7,677,519	7,345,819
Total Assets	8,447,342	9,840,035	23,737,918
LIABILITIES			
Accounts Payable and Accrued Expenses	41,908	151,998	35,596
Due to Other Funds	2,693		
Deferred Revenue		65,852	
Interest Payable		40,886	215,005
Accrued Management Fees Payable		167	
Tenant Security Deposits Payable		52,806	
Interest Rate Swap Fair Value Liability		130,876	
Mortgage Payable		11,050,000	
Notes Payable	4,413,309		
Certificate of Participation Bonds Payable			22,775,000
Total Liabilities	4,457,910	11,492,585	23,025,601
NET ASSETS (DEFICIT)			
Unrestricted	85,251	(1,652,550)	712,317
Temporarily Restricted	1,971,008		
Permanently Restricted	1,933,173		
Total Net Assets (Deficit)	\$ 3,989,432	\$ (1,652,550)	\$ 712,317

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

***The University of North Carolina at Pembroke Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2007***

Exhibit B-2

	The University of North Carolina at Pembroke Foundation, Inc.	The UNCP University Foundation, LLC	The UNCP Student Housing Foundation, LLC
CHANGES IN UNRESTRICTED NET ASSETS			
Revenues and Gains:			
Contributions	\$ 79,101	\$ 0	\$ 0
Income Earned on Investments	17,193		
Interest Income		59,603	608,607
Rental and Lease Income		1,565,412	756,000
Unrealized Gains on Investments	819		
Miscellaneous Income		60,926	
Total Unrestricted Revenues and Gains	<u>97,113</u>	<u>1,685,941</u>	<u>1,364,607</u>
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>340,331</u>		
Total Unrestricted Revenues, Gains, and Other Support	<u>437,444</u>	<u>1,685,941</u>	<u>1,364,607</u>
Expenses:			
Contribution to the University of North Carolina at Pembroke	164,448		
Development	155,893		
Administrative		41,616	
Leasing		219	
Advertising and Promotional		15,766	
Property Management Fees		78,085	
Payroll and Related		135,264	
Maintenance and Repairs		80,658	
Utilities		416,282	
Taxes and Insurance		30,144	
Amortization		19,882	
Interest		466,203	546,263
Management and General	89,302		
Professional Fees		17,692	3,300
Fiscal Agent Fees			7,710
Depreciation		273,138	323,894
Bond Fees		163,727	
Change in Fair Value of Interest Rate Swap		(188,927)	
Other			11,230
Total Expenses	<u>409,643</u>	<u>1,549,749</u>	<u>892,397</u>
Increase in Unrestricted Net Assets	<u>27,801</u>	<u>136,192</u>	<u>472,210</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	1,088,101		
Income Earned on Investments	169,664		
Unrealized Gains on Investments	74,168		
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>(340,331)</u>		
Increase in Temporarily Restricted Net Assets	<u>991,602</u>		
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	165,678		
Income Earned on Investments	1,075		
Unrealized Gains on Investments	266		
Increase in Permanently Restricted Net Assets	<u>167,019</u>		
Increase in Net Assets	1,186,422	136,192	472,210
Net Assets at Beginning of Year	<u>2,803,010</u>	<u>(1,788,742)</u>	<u>240,107</u>
Net Assets at End of Year	<u>\$ 3,989,432</u>	<u>\$ (1,652,550)</u>	<u>\$ 712,317</u>

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, 2007

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, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Pembroke is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

The University of North Carolina at Pembroke Foundation, Inc., (the "Foundation") is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 11 elected public directors, four elected non-public directors, and two ex-officio directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

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

During the year ended June 30, 2007, The University of North Carolina at Pembroke Foundation, Inc. distributed \$164,446.90 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundations can be obtained from the University’s Office of Business Affairs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

- E. Investments** - This classification includes fixed income investments, equity investments, money market funds, and other asset holdings by the University. Except for money market funds and other asset holdings,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investments are accounted for at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 30 years for general infrastructure, 25 to 40 years for buildings, and 3 to 24 years for equipment.

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

- I. Restricted Assets** - Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. These assets are also classified as noncurrent since they

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cannot be used for current operations. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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

The University's bond premiums/discounts are considered immaterial and are expensed with the issuance costs. Deferred gains/losses on defeased bonds are also considered immaterial and are expensed rather than amortized.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$22,577,404.57 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2007 was \$39,866.49. The carrying amount of the University's deposits not with the State Treasurer was \$14,107.06 and the bank balance was \$53,322.69. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2007, the University's bank balance covered by federal depository insurance and was not exposed to custodial credit risk.

B. Investments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

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

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

Investments are subject to the following risks.

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

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency 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 prorata share of the principal value and undistributed earnings. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 405,791.25	\$ 0.00	\$ 294,950.80	\$ 110,840.45	\$ 0.00
U.S. Agencies	329,444.81	69,431.25	205,426.06	54,587.50	
Mortgage Pass Throughs	188,257.87		71,696.76	40,521.11	76,040.00
Collateralized Mortgage Obligations	308,917.57			239,965.70	68,951.87
Money Market Mutual Funds	557,005.31	557,005.31			
Domestic Corporate Bonds	1,686,462.90	973,355.89	461,336.54	251,770.47	
		<u>\$ 1,599,792.45</u>	<u>\$ 1,033,410.16</u>	<u>\$ 697,685.23</u>	<u>\$ 144,991.87</u>
Other Securities					
Domestic Stocks	5,568,766.45				
Foreign Stocks	1,058,015.60				
Total Long-Term Investment Pool	<u>\$ 10,102,661.76</u>				

At June 30, 2007, 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
U.S. Agencies	\$ 329,444.81	\$ 329,444.81	\$ 0.00	\$ 0.00	\$ 0.00
Mortgage Pass Throughs	188,257.87	188,257.87			
Collateralized Mortgage Obligations	308,917.57	308,917.57			
Money Market Mutual Funds	557,005.31	557,005.31			
Domestic Corporate Bonds	1,686,462.90	61,643.70	400,954.37	695,837.78	528,027.05

Rating Agency: S&P

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, investments in the Long-Term Investment Pool were not exposed to custodial credit risk.

Foreign Currency Risk: The University Endowment Board's investment policy permits the money managers to invest into foreign securities. At June 30, 2007, the Long-Term Investment Pool's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value (U.S. Dollars)
Foreign Stock	Euro	\$ 490,497.09
Foreign Stock	Brazilian Real	29,977.08
Foreign Stock	South Korean Won	49,728.60
Foreign Stock	Taiwan Dollar	29,322.59
Foreign Stock	Chinese Yuan	19,537.00
Foreign Stock	Hong Kong Dollar	18,676.25
Foreign Stock	Pound Sterling	188,228.06
Foreign Stock	Japanese Yen	202,245.73
Foreign Stock	Swiss Frank	29,803.20
Total		\$ 1,058,015.60

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the University's non-pooled investments. The annuity contracts are unrated.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Annuity Contracts	\$ 40,000.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 40,000.00
Other Securities					
Other Mutual Funds	376,162.98				
Total Non-Pooled Investments	\$ 416,162.98				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments - The following table presents the fair value of the total investments at June 30, 2007:

Investment Type	<u>Fair Value</u>
Debt Securities	
U.S. Treasuries	\$ 405,791.25
U.S. Agencies	329,444.81
Mortgage Pass Throughs	188,257.87
Collateralized Mortgage Obligations	308,917.57
Annuity Contracts	40,000.00
Money Market Mutual Funds	557,005.31
Domestic Corporate Bonds	1,686,462.90
Other Securities	
Other Mutual Funds	376,162.98
Domestic Stocks	5,568,766.45
Foreign Stocks	<u>1,058,015.60</u>
Total Investments	<u>\$ 10,518,824.74</u>

Total investments include \$2,355,714.86 held in the Endowment Fund for component units that are discretely presented in the accompanying financial statements.

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

University of North Carolina at Pembroke Foundation, Inc.

All investments are valued at market value. The book value of the investments held by the fiscal agent compared to the market value at June 30, 2007, was as follows:

	<u>Book Balance</u>	<u>Market Value</u>
Pooled Investment Funds	<u>\$ 2,167,917.00</u>	<u>\$ 2,355,715.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2007.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Realized Gains (Loss)	\$ 17,193	\$ 169,664	\$ 1,075	\$ 187,932
Net Unrealized Gains (Loss)	819	74,168	266	75,253
Total Investment Return	\$ 18,012	\$ 243,832	\$ 1,341	\$ 263,185

UNCP University Foundation, LLC

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

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

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

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

	2007
Revenue	\$ 130,000.00
Reimbursement	11,000.00
Bond Fund Principal	136,048.00
Debt Service Reserve	937,653.00
Renewal and Replacement	51,346.00
Residual	230,698.00
Future Operations and Maintenance	1,290.00
Future Management	47.00
Bond Fund Reimbursement	40,000.00
Future Exchange	10,169.00
Rebate	3,693.00
	1,551,944.00
Less Current Portion	(360,698.00)
	\$ 1,191,246.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The UNCP Student Housing Foundation, LLC

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

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

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

	<u>2007</u>
Revenue	\$ 685,432.62
Construction	3,406,857.83
Debt Service Reserve	2,519.89
Capitalized Interest	<u>326,082.60</u>
	<u>\$ 4,420,892.94</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

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, 2007, net appreciation of \$947,578.67 was available to be spent, of which \$931,906.30 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,622,752.30	\$ 263,166.38	\$ 2,359,585.92
Accounts	432,613.07		432,613.07
Intergovernmental	730,176.32		730,176.32
Pledges	20,332.72	6,099.81	14,232.91
Investment Earnings	70,335.93		70,335.93
Interest on Loans	2,486.35		2,486.35
Other	12,259.80		12,259.80
	Total Current Receivables	\$ 269,266.19	\$ 3,621,690.30
Noncurrent Receivables:			
Pledges	\$ 214,349.19	\$ 64,304.76	\$ 150,044.43
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 287,133.79	\$ 45,339.12	\$ 241,794.67
Institutional Student Loan Programs	114,565.89	7,474.09	107,091.80
	Total Notes Receivable - Current	\$ 52,813.21	\$ 348,886.47
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,023,299.98	\$ 208,817.95	\$ 814,482.03

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 1,972,464.44	\$ 113,177.60	\$ 0.00	\$ 2,085,642.04
Art, Literature, and Artifacts	168,729.87			168,729.87
Construction in Progress	6,293,705.75	3,785,515.53	5,638,022.02	4,441,199.26
Total Capital Assets, Nondepreciable	8,434,900.06	3,898,693.13	5,638,022.02	6,695,571.17
Capital Assets, Depreciable:				
Buildings	91,307,757.29	33,061,031.81		124,368,789.10
Machinery and Equipment	7,492,542.99	1,760,406.77	179,005.86	9,073,943.90
General Infrastructure	13,344,652.15	2,447,323.97		15,791,976.12
Total Capital Assets, Depreciable	112,144,952.43	37,268,762.55	179,005.86	149,234,709.12
Less Accumulated Depreciation/Amortization for:				
Buildings	18,745,793.53	1,571,175.05		20,316,968.58
Machinery and Equipment	4,117,803.79	1,298,929.74	83,536.04	5,333,197.49
General Infrastructure	2,208,980.99	799,964.95		3,008,945.94
Total Accumulated Depreciation	25,072,578.31	3,670,069.74	83,536.04	28,659,112.01
Total Capital Assets, Depreciable, Net	87,072,374.12	33,598,692.81	95,469.82	120,575,597.11
Capital Assets, Net	\$ 95,507,274.18	\$ 37,497,385.94	\$ 5,733,491.84	\$ 127,271,168.28

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 1,861,567.46
Accrued Payroll	423,790.15
Contract Retainage	339,103.43
Total Accounts Payable and Accrued Liabilities	\$ 2,624,461.04

NOTE 7 - SHORT-TERM DEBT - LETTER OF CREDIT

Component Unit - UNCP University Foundation, LLC - In connection with the long-term debt the Foundation has a letter of credit in the amount of \$11,775,445.00 with Wachovia Bank, National Association, formerly known as First Union National Bank. The letter of credit serves as a credit enhancement to the bonds and expired February 13, 2009. There has been no activity on this line of credit during the 2007 fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Revenue Bonds Payable	\$ 9,275,000.00	\$ 1,960,000.00	\$ 465,000.00	\$ 10,770,000.00	\$ 550,000.00
Notes Payable		500,000.00		500,000.00	95,571.44
Capital Leases Payable	10,730,910.00	24,116,632.46	675,682.94	34,171,859.52	2,014,000.00
Compensated Absences	2,589,889.00	3,161,893.00	2,929,047.00	2,822,735.00	253,490.00
Total Long-Term Liabilities	\$ 22,595,799.00	\$ 29,738,525.46	\$ 4,069,729.94	\$ 48,264,594.52	\$ 2,913,061.44

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2007	Principal Outstanding June 30, 2007
<u>The University of North Carolina System Pool Revenue Bonds</u>						
Housing System	A	4.0%-5.25%	10/01/2018	3,130,000.00	865,000.00	2,265,000.00
Recreational Facilities	B	3.75%-5.00%	10/01/2021	816,940.30		816,940.30
Dining System	B	3.75%-5.00%	10/01/2016	518,059.70		518,059.70
University Center Expansion Supplement	B	3.75%-5.00%	10/01/2026	1,965,000.00		1,965,000.00
Recreational Center Improvements	C	3.5%-5.0%	04/01/2012	605,000.00	255,000.00	350,000.00
Surface Parking Lot	C	3.5%-5.0%	04/01/2012	285,000.00	120,000.00	165,000.00
University Center Renovations & Expansion Auxiliary Services Complex & Student Recreational Facility	D	2.0%-4.75%	04/01/2028	5,270,000.00	580,000.00	4,690,000.00
Total Bonds Payable				<u>\$ 12,590,000.00</u>	<u>\$ 1,820,000.00</u>	<u>\$ 10,770,000.00</u>

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B

(B) The University of North Carolina System Pool Revenue Bonds, Series 2006B

(C) The University of North Carolina System Pool Revenue Bonds, Series 2002B

(D) The University of North Carolina System Pool Revenue Bonds, Series 2003B

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2007, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2008	\$ 550,000.00	\$ 461,946.25	\$ 95,571.44	\$ 21,580.42
2009	565,000.00	442,233.77	97,736.13	18,320.62
2010	595,000.00	420,471.27	99,949.86	13,893.16
2011	620,000.00	395,651.89	102,213.72	9,365.44
2012	640,000.00	369,079.98	104,528.85	4,735.17
2013-2017	2,930,000.00	1,456,503.71		
2018-2022	2,420,000.00	853,774.97		
2023-2027	2,115,000.00	378,884.40		
2028-2032	335,000.00	15,912.50		
Total Requirements	\$ 10,770,000.00	\$ 4,794,458.74	\$ 500,000.00	\$ 67,894.81

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

On November 1, 2006, the University of North Carolina at Pembroke, through the University of North Carolina System's 2006B Pool General Trust Indenture, issued \$1,335,000.00 in Series 2006B refunding bonds with an average interest rate of 4.12%. The bonds were issued to advance refund \$1,340,000.00 of outstanding System Pool Revenue Bonds, Series 2000 bonds with an average interest rate of 5.41%. The net proceeds of the refunding bonds along with \$76,369.94 from the 2000 Pool Reserve were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$135,470.38 over the next 15 years and resulted in an economic gain of \$156,311.83. At June 30, 2007, the outstanding balance was \$1,425,000.00 for the defeased System Pool Revenue Bonds, Series 2000 bonds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2007	Principal Outstanding June 30, 2007
Banner Equipment & Services	Branch Banking & Trust Company	4.53%	01/05/2012	\$ 500,000.00	\$ 0.00	\$ 500,000.00

F. Component Units – Long-Term Debt

UNCP University Foundation, LLC - Long-term debt consists of \$11,050,000.00 at June 30, 2007. Tax-exempt series 2001A term bonds dated January 24, 2001, are due at various intervals through 2031, and are payable in monthly installments of interest and annual installments of principal. The bonds bear interest at various interest rates up to 12 percent, as defined in the Trust Indenture, and are secured by deed and assignment of rents.

As described above, the mortgage payable bears interest at a variable rate. To minimize the effect of changes in interest rates, the Organization entered into an interest rate swap agreement under which it pays interest at a fixed rate of 3.955 percent and receives interest at a variable rate. The variable rate under the swap is based on the same notional amount as the underlying mortgage. However, the variable rate of interest is calculated differently on the swap than on the variable rate bonds plus portions of the bond have fixed interest rates. As a result, the swap is only partially effective as a hedge. Valued separately, the interest rate swap agreement represents a liability as of June 30, 2007, in the amount of \$130,876. This value represents the fair value of the current difference in interest paid and received under the swap agreement over the remaining term of the agreement. Payments are recognized in current operating results as settlements as they occur under the agreement as a component of interest expense.

The portion of the settlement payments that are effective as a cash flow hedge are included as a component of interest expense and result in an effective interest rate of 3.955 percent. The ineffective portion of the settlement payments in fiscal year 2007 was \$13,755 and has been included in the change in fair value of the interest rate swap. The swap matures July 1, 2031. Only interest payments are due under the swap agreement. Total payments due during the next 12 months, net of receipts, are not reasonably estimable because fluctuations in interest rates cannot be estimated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The first monthly interest payment on the bonds began on July 1, 2001. As of June 30, 2007, \$40,886 is accrued.

Maturities of long-term debt at June 30, 2007, are as follows:

2008	\$	135,000.00
2009		170,000.00
2110		205,000.00
2111		240,000.00
2112		255,000.00
Thereafter		<u>10,045,000.00</u>
Total		11,050,000.00
Less Current Maturities		<u>(135,000.00)</u>
Net Long-Term Portion	\$	<u>\$10,915,000.00</u>

The UNCP Student Housing Foundation, LLC

Long-term debt at June 30, 2007, consists of tax exempt Series 2004 Certificate of Participation bonds dated January 1, 2004, and due at various intervals through 2034 used (1) to refinance the cost of the construction, acquisition and equipping of an existing 216-bed student housing facility and to finance the cost of the construction, acquisition and equipping of a 144-bed student housing facility, each on the campus of UNCP in Pembroke, North Carolina, (2) to pay capitalized interest with respect to the portion of the 2004 Certificates allocable to the expansion project during construction thereof, (3) to fund a debt service, and (4) to pay expenses related to the 2004 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January, 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated as of January 1, 2004, between the Housing LLC and UNCP and agreed to pay

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the Trustee (First-Citizens Bank & Trust Company) as base rentals amounts that correspond to the rental payments required to be paid by the State under the Lease.

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

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

Long-term debt at June 30, 2007, also consists of tax exempt Series 2006 Certificate of Participation bonds dated April 19, 2006, and due at various intervals through 2037 used to finance (1) the cost of the construction, acquisition and equipping of an approximately 360-bed student housing facility on the campus of The University of North Carolina at Pembroke, (2) the payment of capitalized interest with respect to the 2006 Certificates during construction of the New Project, (3) the payment of the premium for the financial guaranty insurance policy, (4) the payment of premiums on debt service reserve fund policies, and (5) the payment of certain expenses incurred in connection with the execution and delivery of the 2006 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January, 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated as of January 1, 2004, between the Housing LLC and UNCP and agreed to pay the Trustee (First-Citizens Bank & Trust Company) as base rentals amounts that correspond to the rental payments required to be paid by the State under the Lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2007, are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2008	\$ 335,000.00	\$ 993,607.00
2009	380,000.00	981,707.00
2010	415,000.00	969,582.00
2011	450,000.00	956,132.00
2012	500,000.00	938,657.00
Thereafter	20,695,000.00	13,593,740.00
Total	22,775,000.00	18,433,425.00
Less Current Maturities	(335,000.00)	(993,607.00)
Net Long-Term Portion	\$ 22,440,000.00	\$ 17,439,818.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to University student housing is recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 2,014,000.00
2009	2,014,000.00
2010	2,014,000.00
2011	2,014,000.00
2012	2,014,000.00
2013-2017	10,070,000.00
2018-2022	10,070,000.00
2023-2027	10,070,000.00
2028-2032	10,070,000.00
2033-2037	<u>10,070,000.00</u>
Total Minimum Lease Payments	60,420,000.00
Amount Representing Interest (4.20% Rate of Interest)	<u>26,248,140.48</u>
Present Value of Future Lease Payments	<u><u>\$ 34,171,859.52</u></u>

Buildings acquired under capital lease amounted to \$34,171,859.52 at June 30, 2007.

- B. Operating Lease Obligations** - The University did not enter into any noncancelable operating leases during fiscal year 2007.

Rental expense for all operating leases during the year was \$596,127.19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	\$ 19,844,515.61	\$ 0.00	\$ 4,404,537.12	\$ 263,166.38	\$ 15,176,812.11	\$ 490,721.61 (A)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 4,635,727.98	\$ 112,321.00	\$ 1,137,468.68	\$ 0.00	\$ 3,385,938.30	\$ 3,385,938.30 (B)
Dining	2,885,866.99	115,411.52	676,297.54		2,094,157.93	2,094,157.93 (C)
Student Union Services	69,765.39	16,453.88			53,311.51	
Health, Physical Education, and Recreation Services	1,050,839.03	43,065.86	517,221.76		490,551.41	
Bookstore	4,283,505.62	23,372.91	751,121.98		3,509,010.73	3,509,010.73 (E)
Parking	315,176.86				315,176.86	315,176.86 (D)
Athletic	97,056.78	12,520.77			84,536.01	
Other	1,385,376.92	1,314,652.92			70,724.00	
Sales and Services of Education and Related Activities	343,607.89	23,372.91			320,234.98	
Total Sales and Services	\$ 15,066,923.46	\$ 1,661,171.77	\$ 3,082,109.96	\$ 0.00	\$ 10,323,641.73	\$ 9,304,283.82

Revenue Bonds Secured by Pledged Revenues:

- (A) Recreational Facilities and University Center Expansion
- (B) Housing System
- (C) Dining System
- (D) Surface Parking
- (E) Bookstore

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 24,757,504.79	\$ 2,191,973.65	\$ 1,732,982.34	\$ 900.00	\$ 1,704.71		\$ 28,685,065.49
Research	178,861.94	29,035.91	30,428.90				238,326.75
Public Service	1,558,498.77	153,039.68	700,238.74	34,608.08	325.45		2,446,710.72
Academic Support	6,012,670.59	2,689,205.30	1,138,254.63	0.00			9,840,130.52
Student Services	2,946,215.79	466,194.81	2,843,570.89				6,255,981.49
Institutional Support	5,580,574.74	706,878.96	2,092,785.95		920.17		8,381,159.82
Operations and Maintenance of Plant	4,457,201.54	1,639,096.22	2,909,721.29		2,217,937.64		11,223,956.69
Student Financial Aid			68,537.58	2,447,981.70			2,516,519.28
Auxiliary Enterprises	1,698,579.70	4,222,299.92	7,246,613.18	400.00	1,190,612.68		14,358,505.48
Independent Operations			61,960.09				61,960.09
Depreciation						3,670,069.74	3,670,069.74
Total Operating Expenses	\$ 47,190,107.86	\$ 12,097,724.45	\$ 18,825,093.59	\$ 2,483,889.78	\$ 3,411,500.65	\$ 3,670,069.74	\$ 87,678,386.07

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the University had a total payroll of \$38,759,275.97, of which \$18,986,400.78 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,139,184.05 and \$505,038.26, respectively. The University made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$505,038.26, \$396,215.20, and \$329,563.25, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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, 2007, 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 year ended June 30, 2007, the University had a total payroll of \$38,759,275.97, of which \$15,386,864.61 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$923,211.88 and \$1,052,461.54, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$241,628.04 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2007, were \$25,613.90. The voluntary contributions by employees amounted to \$143,570.21 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$807,780.98 for the year ended June 30, 2007.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2007, the University's total contribution to the Plan was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$1,306,184.08. 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*.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2007, the University's total contribution to the DIPNC was \$178,740.98. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 14 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 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 \$500 per occurrence

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deductible, except theft losses carry a \$1,000 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 occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State are \$1,000,000 per claim and \$5,000,000 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 with a \$75,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Examples of such coverage are workers' compensation for non appropriated employees, student accident, student health, boiler and machinery accident and hazardous substance, internship liability, and commercial inland marine for music and related equipment, biodiesel, and fine arts.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation for employees paid by State appropriations and purchased coverage for all other employees with a private insurance company through the North Carolina Department of Insurance.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$5,168,639.12 and on other purchases were \$1,306,345.74 at June 30, 2007.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Capital Improvement - State General Obligation Bonds	\$ 6,333,200.63

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows:

	Amount
July 1, 2006, Net Assets as Previously Reported	\$ 99,078,070.88
Restatement: Correction of an Error Related to the Estimated Useful Lives of Capital Assets	1,614,886.39
July 1, 2006, Net Assets as Restated	\$ 100,692,957.27

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 17 - SUBSEQUENT EVENTS

The University of North Carolina at Pembroke requested the University of North Carolina Board of Governors to include \$2,000,000 in its 2008 special obligation bonds for constructing, equipping and furnishing a football and multipurpose facility which the General Assembly authorized in Chapter 394 of the 2007 North Carolina Session Laws. In anticipation of the issuance of the bonds and in order to obtain funds to begin designing and constructing the project the University of North Carolina at Pembroke, on November 30, 2007, entered into a loan agreement with Branch Banking and Trust Company to borrow from the bank a loan of \$2,000,000.

The 2008 special obligation bonds, 2008A series was issued pursuant to a 2008A Pool General Trust Indenture dated as of April 1, 2008, between the Board of Governors and The Bank of New York Trust Company. The proceeds were used to pay off the Branch Banking and Trust Company loan of \$2,000,000. Student fees will be used to retire the bond debt.

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

Board of Trustees

The University of North Carolina at Pembroke
Pembroke, North Carolina

We have audited the financial statements of The University of North Carolina at Pembroke, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements and have issued our report thereon dated May 9, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component units, as described in our report on the University's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Where applicable, the University's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the University's response and, accordingly, we express no opinion on it.

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 9, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Finding number 1 was also reported in the prior year.

1. INFORMATION SYSTEM ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEGREGATION OF DUTIES

The University granted information system access rights inconsistent with adequate segregation of duties. The University had three employees in management positions who had system access rights that allowed them to create vendors, create purchase orders, enter invoices for payment, print checks, and post journal entries. Another employee in management had the same access rights, with the exception of check printing. Because these employees are in management, they are also responsible for oversight of the transactions that they are capable of initiating.

Segregation of duties is a basic internal control that requires limitations of information system access rights that could allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

This finding has been resolved. Inappropriate system access rights were removed in October 2007 for the three management employees.

2. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and notes to the financial statements prepared by the University had several misstatements. Although the errors were relatively small in relation to the financial statements taken as a whole, they are indicative of an increased risk that future financial statements may be misleading to readers should there be any further weakening of the financial reporting process. Misstatements noted in our audit included:

- a. The University has not periodically evaluated the appropriateness of the estimated useful lives of its capital assets. After we requested that the University perform such an evaluation, staff identified an estimated overstatement of accumulated depreciation of approximately \$1.6 million.
- b. Noncurrent Restricted Cash and Current Unrestricted Cash were understated \$532,151.93 and \$811,667.01, respectively, and Current Restricted Cash was overstated \$1,343,818.94.
- c. Current Receivables were understated \$1,714,587.91 and Noncurrent Receivables were overstated by the same amount.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- d. Several of the notes to the financial statements contained errors. For instance, the total cash in the deposits note was understated \$4,197,131.87.

Recommendation: The University should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy of the financial statements and related notes.

University's Response: The University of North Carolina at Pembroke (UNCP) agrees with the findings recognizing the exposure to the risk for future financial statements given the circumstances precipitating the current findings. In a large part, the root cause has been the high turnover rate; subsequently, the quality of work has been defined by inexperienced personnel and contractors. From the period of August 30, 2006 to August 30, 2007, the UNCP's Controller staff experienced a 'severe' turnover rate of over 50%. UNCP has experienced disproportionate turnover due to retirement with some due to internal and external movement. UNCP lost 'all' of its critical positions with significant institutional memory in year-end closing, CAFR and financial reporting. The consequence was a drop in the quantity and quality of productivity from the Controller's team.

In an effort to meet the year-end and financial deadlines with such severe resource shortages and institutional memory loss, the University contracted the vast majority of year-end, CAFR and financial reporting deliverables to retired University professionals. This was somewhat successful limited by the new reporting and auditing changes with which the contracted employees were not familiar.

The University is now managing assets within GASB 34/35: periodically evaluating the appropriateness of the estimated useful lives of its capital assets. As well, all understatements and errors have been corrected.

Also, the Chancellor has made a commitment to support the effort in moving UNCP's Controller's team to a "Center of Excellence". This commitment is made with the addition of human capital, upgrading of lower positions and additional positions. The Controller's Office has submitted and was approved by OSP an organizational plan to re-engineer the Controller's organizational structure. A separate financial reporting team has been created with a team of six accounting professionals reporting to the Assistant Controller: Manager of Financial Reporting, Senior Financial Reporting Accountant (1), Financial Reporting Accountant (2), Financial Reporting Specialist (1) and systems technician (1). As well, the model for a UNCP accountant position is changing to actively promote the employment of personnel with an accounting degree, MBA and/ or CPA.

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