



STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Pembroke

We have completed a financial statement audit of The University of North Carolina at Pembroke for the year ended June 30, 2008, 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 finding.

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 2008, 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 Foundation, LLC, or the UNCP Student Housing Foundation, LLC, which comprise the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Pembroke and its discretely presented component units as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2009 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.



Beth A. Wood, CPA
State Auditor

July 1, 2009

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

Introduction

The following discussion and analysis is provided by The University of North Carolina at Pembroke's (the University) financial management as an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes between fiscal years 2008 and 2007, as well as pertinent facts, decisions, and conditions.

Using the Financial Statements

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

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

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

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Assets.

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

Comparison of Two-Year Data for 2008 to 2007

Comparative financial data of 2008 to 2007 is summarized in Table 1. Discussion of comparative data is included in the following section.

Analysis of Overall Financial Position and Results of Operations

Statement of Net Assets

Assets increased by \$2,776,988 or 1.7% from the prior year. Capital assets increased by \$2,032,649 or 1.6%. Other noncurrent assets decreased by \$2,101,251 or 12.6% from the previous year.

Capital assets continue to grow and the increases reflect the University's commitment to promote teaching and learning by enhancing buildings and facilities on campus. The largest construction project completed was the addition of the University Center Annex at a cost of \$4,434,884. Ongoing projects include the construction of a multi-purpose center tower as part of enhancements to the football stadium, renovations to the Biotechnology Building and the construction of a nursing building which is still in the planning and design phase.

Liabilities increased by \$2,866,373 or 5.3% from the previous year. Current liabilities decreased by \$382,643 or a decrease of 6.3% while noncurrent liabilities increased by \$3,249,016 or 6.8%. The largest noncurrent liability increase was a \$2,055,000 revenue bond payable for the Football and Multipurpose Center. Overall net assets decreased by \$89,385 or a decrease of .1% from fiscal year 2007 to fiscal year 2008. Completion of many of the projects funded by State general obligation bonds resulted in a decrease of bond proceeds and a decrease in net assets from the previous year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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. Total additions to endowments were \$433,656. Programs supported by endowments include scholarships, professorships, and various other programs and activities.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets shows that operating revenues increased by \$8,530,688 or 24.1% over the previous year. Student tuition and fees accounted for \$2,861,205 or 34% of the increase. The increase in net student tuition and fees was due to increases in student enrollment and in student fee rates, but these increases were partially reduced by higher financial aid awards recorded as tuition discounts, which offsets student tuition and fees revenue. Sales and services accounted for \$3,511,420 or 34% of the increase which can be attributed to an increase in enrollment. Contracts and grants have increased by \$1,575,749 or 16.3%. The increase is due to an 18.1% increase in federal financial aid for Pell grants.

Operating expenses increased by \$20,256,575 or 23.1% from the previous year reflecting increased costs associated with increased enrollment. Salaries and benefit expenses increased by \$6,899,710 or 14.6% reflecting a legislative increase approved by the State. Scholarships and fellowships expense increased by \$5,132,799 or 206.6% due to an increase in Pell Grant awards, an increase in third party scholarships and a change of \$2.8 million in scholarship discounts. Generally, the scholarship discount is financial aid from institutional resources and amounts received from government grants applied to satisfy student tuition and fees revenue. Also, certain other revenues from University charges are considered a component in the calculation of the scholarship discount.

State appropriations increased by \$7,017,458 or 13.9% from the previous year due to an increase in State funding. Capital grants decreased by \$2,800,703 or a decrease of 38.3% which indicates completion of most capital projects funded by State general obligation bonds.

Total operating loss for 2008 was \$64,029,192. Since the State of North Carolina appropriation is not included within operating revenue per Governmental Accounting Standards Board Statement No. 35, the University shows a significant operating loss.

The University has successfully sought a balance between increasing performance and service while reducing the overall cost of providing the service. Operating expenses totaling \$107,934,961 include salaries and benefits of \$54,089,818, supplies and materials of

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

\$14,336,474, services of \$22,439,471, scholarships and fellowships of \$7,616,689, utilities of \$3,920,059, and depreciation of \$5,532,450.

A comparative summary of the University's revenues by class for the years ended June 30, 2008 and June 30, 2007 are as follows:

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE		
OPERATING REVENUES		
	<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
Student Tuition and Fees (Net)	\$ 18,038,017	\$ 15,176,812
Federal Grants and Contracts	10,432,579	9,356,440
State and Local Grants and Contracts	769,624	271,605
Nongovernmental Grants and Contracts	49,760	48,169
Sales and Services (Net)	13,835,062	10,323,642
Other Operating Revenues	780,727	198,413
Total Operating Revenues	<u>\$ 43,905,769</u>	<u>\$ 35,375,081</u>

A comparative summary of the University's expenses by functional classification for years ended June 30, 2008 and June 30, 2007 are as follows:

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE		
OPERATING EXPENSE BY FUNCTION		
	<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
Instruction	\$ 32,385,441	\$ 28,685,065
Research	302,265	238,327
Public Service	2,158,545	2,446,711
Academic Support	11,024,790	9,840,131
Student Services	6,640,417	6,255,981
Institutional Support	10,348,509	8,381,160
Operations & Maintenance of Plant	14,252,797	11,223,957
Student Financial Aid	7,686,607	2,516,519
Auxiliary Enterprises	17,603,140	14,358,505
Independent Operations		61,960
Depreciation	5,532,450	3,670,070
Total Operating Expenses	<u>\$ 107,934,961</u>	<u>\$ 87,678,386</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A comparative summary of the University's expenses by class for the years ended June 30, 2008 and June 30, 2007 are as follows:

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE		
OPERATING EXPENSES BY CLASS		
	<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
Salaries and Benefits	\$ 54,089,818	\$ 47,190,108
Supplies and Materials	14,336,474	12,097,724
Services	22,439,471	18,825,093
Scholarships and Fellowships	7,616,689	2,483,890
Utilities	3,920,059	3,411,501
Depreciation	5,532,450	3,670,070
Total Operating Expenses	<u><u>\$ 107,934,961</u></u>	<u><u>\$ 87,678,386</u></u>

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.

Analysis of Net Asset Balances

At June 30, 2008, the gross value of plant assets was \$162,879,602. Accumulated depreciation was \$33,575,785 and related plant asset debt was \$45,862,000.

Restricted expendable net assets totaled \$7,156,792 and restricted nonexpendable net assets totaled \$7,648,759 both representing amounts subject to externally imposed restrictions.

Unrestricted net assets totaled \$13,628,313 representing amounts not subject to externally imposed stipulations but internally designated for various activities and initiatives, including future construction projects.

Capital Asset and Long-Term Debt

The University expended \$1,156,263 during the year for capital equipment throughout the facilities and \$4,917,855 for the construction and renovations of buildings and \$673,317 for infrastructure.

At June 30, 2008, outstanding commitments on construction contracts were \$3,521,559 while outstanding commitments related to capital purchase orders for fixed and movable equipment totaled \$321,630.

At June 30, 2008, the University had outstanding bond indebtedness in the amount of \$12,275,000 of which \$565,000 is due within the next year, capital leases payable of \$33,587,000 of which \$609,681 is due within the next year and notes payable of \$404,429 of which \$97,736 is due within the next year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the past year renovations on the Lowry Building and the Business Administration Building were completed and moved from construction in progress. The University Center Annex was completed and moved from construction in progress. Projects in the construction phase include the Football and Multipurpose Center and the Biotechnology Building. The Nursing Building is in the planning and design phase.

The University borrowed \$2,055,000 in November 2007 from Branch Banking and Trust Company to begin construction on the Football and Multipurpose Facility. The University of North Carolina General Administration issued bonds in April 2008 on behalf of the University of North Carolina at Pembroke and other constituent institutions. The University of North Carolina at Pembroke received \$2,055,000 of the bond proceeds after signing a promissory note. The proceeds were used to retire the debt with Branch Banking and Trust Company and principal and interest will be paid over the next 25 years. Student fees will be used to retire the debt. The Football and Multipurpose Center was completed in October 2008.

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

Enrollment Activities

The University continues toward its goal of enrolling 6,000 students. Total headcount increased by 151 students from fiscal year 2007 to fiscal year 2008 with a corresponding 2.6% increase.

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE TOTAL FALL ENROLLMENT 1999 - 2008

FISCAL YEAR	FULL TIME EQUIVALENT	HEAD COUNT
1999	2,560	2,971
2000	2,611	3,059
2001	2,897	3,471
2002	3,328	3,975
2003	3,768	4,390
2004	4,110	4,698
2005	4,320	4,997
2006	4,841	5,575
2007	4,950	5,786
2008	5,150	5,937

Economic Factors that will Affect the Future

Funding for higher education in 2008 was reduced and the outlook for 2009 does not show significant improvement. University faculty and staff received a moderate increase in salaries. We are hopeful that the economic outlook will improve in the coming years. The University is dependent on State appropriations and State agencies have been asked to review

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

budgets for possible reductions during the current fiscal year. We are hopeful that enrollment will continue to increase for the University and that increase will bring more faculty and staff along with increased operating budgets. During the past year student enrollment, bookstore sales, and food service revenue increased. Some of the increases can be attributed to the favorable impact that the football program has had on many areas of operation including student enrollment.

The State continues to fund repairs and renovations. This funding is necessary to maintain our facilities but additional funding would be useful in improving our capital maintenance program. We look for this pool of funding to at least remain steady.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
TABLE 1 - SUMMARY OF CONDENSED FINANCIAL STATEMENTS TOTALS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

	June 30, 2008	June 30, 2007	Increase/ (Decrease)	Percent Change
STATEMENT OF NET ASSETS				
Current Assets	\$ 24,464,759	\$ 21,619,169	\$ 2,845,590	13.2%
Capital Assets, Net	129,303,817	127,271,168	2,032,649	1.6%
Other Noncurrent Assets	14,605,360	16,706,611	(2,101,251)	-12.6%
TOTAL ASSETS	168,373,936	165,596,948	2,776,988	1.7%
Current Liabilities	5,704,222	6,086,865	(382,643)	-6.3%
Noncurrent Liabilities	50,794,033	47,545,017	3,249,016	6.8%
TOTAL LIABILITIES	56,498,255	53,631,882	2,866,373	5.3%
Invested in Capital Assets, Net of Related Debt Restricted	83,441,817	81,829,309	1,612,508	2.0%
Nonexpendable	7,648,759	6,725,771	922,988	13.7%
Expendable	7,156,792	10,202,158	(3,045,366)	-29.9%
Unrestricted	13,628,313	13,207,828	420,485	3.2%
TOTAL NET ASSETS	\$ 111,875,681	\$ 111,965,066	\$ (89,385)	-0.1%
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Student Tuition and Fees, Net	\$ 18,038,017	\$ 15,176,812	\$ 2,861,205	18.9%
Grants and Contracts	11,251,963	9,676,214	1,575,749	16.3%
Sales and Services, Net	13,835,062	10,323,642	3,511,420	34.0%
Other Operating Revenues	780,727	198,413	582,314	293.5%
TOTAL OPERATING REVENUES	43,905,769	35,375,081	8,530,688	24.1%
Salaries and Benefits	54,089,818	47,190,108	6,899,710	14.6%
Supplies and Materials	14,336,474	12,097,724	2,238,750	18.5%
Services	22,439,471	18,825,093	3,614,378	19.2%
Scholarships and Fellowships	7,616,689	2,483,890	5,132,799	206.6%
Utilities	3,920,059	3,411,501	508,558	14.9%
Depreciation	5,532,450	3,670,070	1,862,380	50.7%
TOTAL OPERATING EXPENSES	107,934,961	87,678,386	20,256,575	23.1%
OPERATING LOSS	(64,029,192)	(52,303,305)	(11,725,887)	22.4%
State Appropriations	57,624,051	50,606,593	7,017,458	13.9%
Noncapital Grants and Gifts	1,372,074	806,015	566,059	70.2%
Other Nonoperating Expenses, Net	(1,719,992)	973,305	(2,693,297)	-276.7%
NET NONOPERATING REVENUES	57,276,133	52,385,913	4,890,220	9.3%
OTHER REVENUES				
Capital Grants	4,521,194	7,321,897	(2,800,703)	-38.3%
Capital Appropriations	1,606,000	3,394,300	(1,788,300)	-52.7%
Additions to Permanent Endowments	433,656	473,304	(39,648)	-8.4%
INCREASE (DECREASE) IN NET ASSETS	(192,209)	11,272,109	(11,464,318)	-101.7%
NET ASSETS-BEGINNING OF YEAR	111,965,066	100,692,957	11,272,109	11.2%
NET ASSET RESTATEMENT	102,824	102,824	102,824	100.0%
NET ASSETS-END OF YEAR	\$ 111,875,681	\$ 111,965,066	\$ (89,385)	-0.1%

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 15,443,445
Restricted Cash and Cash Equivalents	3,422,632
Receivables, Net (Note 4)	3,751,139
Inventories	1,529,855
Notes Receivable, Net (Note 4)	317,688
	<hr/>
Total Current Assets	24,464,759
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,781,508
Receivables, Net (Note 4)	114,279
Restricted Due from Primary Government	464,827
Endowment Investments	7,966,610
Other Investments	413,006
Notes Receivable, Net (Note 4)	865,130
Capital Assets - Nondepreciable (Note 5)	4,321,669
Capital Assets - Depreciable, Net (Note 5)	124,982,148
	<hr/>
Total Noncurrent Assets	143,909,177
	<hr/>
Total Assets	168,373,936
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,485,066
Due to Primary Government	9,854
Unearned Revenue	532,630
Interest Payable	153,773
Long-Term Liabilities - Current Portion (Note 8)	1,522,899
	<hr/>
Total Current Liabilities	5,704,222
	<hr/>

Noncurrent Liabilities:

Deposits Payable	300,316
Funds Held for Others	1,467,542
U. S. Government Grants Refundable	1,290,033
Long-Term Liabilities (Note 8)	47,736,142
	<hr/>
Total Noncurrent Liabilities	50,794,033
	<hr/>
Total Liabilities	56,498,255
	<hr/>

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2008

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	83,441,817
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,821,801
Endowed Professorships	3,332,318
Departmental Uses	149,294
Loans	345,346
Expendable:	
Scholarships and Fellowships	585,628
Endowed Professorships	332,880
Departmental Uses	964,222
Capital Projects	5,274,062
Unrestricted	<u>13,628,313</u>
Total Net Assets	<u>\$ 111,875,681</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, 2008***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 18,038,017
Federal Grants and Contracts	10,432,579
State and Local Grants and Contracts	769,624
Nongovernmental Grants and Contracts	49,760
Sales and Services, Net (Note 10)	13,835,062
Interest Earnings on Loans	10,959
Other Operating Revenues	769,768
	<hr/>
Total Operating Revenues	43,905,769

EXPENSES

Operating Expenses:

Salaries and Benefits	54,089,818
Supplies and Materials	14,336,474
Services	22,439,471
Scholarships and Fellowships	7,616,689
Utilities	3,920,059
Depreciation	5,532,450
	<hr/>
Total Operating Expenses	107,934,961

Operating Loss	<hr/> <u>(64,029,192)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	57,624,051
Noncapital Grants	1,051,428
Noncapital Gifts	320,646
Investment Income (Net of Investment Expense of \$107,382.10)	748,726
Interest and Fees on Debt	(1,596,444)
Other Nonoperating Expenses	(872,274)
	<hr/>
Net Nonoperating Revenues	57,276,133

Loss Before Other Revenues	(6,753,059)
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Capital Appropriations	1,606,000
Capital Grants	4,521,194
Additions to Endowments	433,656
	<hr/>
Decrease in Net Assets	(192,209)

NET ASSETS

Net Assets - July 1, 2007, as Restated (Note 17)	<hr/> 112,067,890
Net Assets - June 30, 2008	<hr/> <u>\$ 111,875,681</u>

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

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

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 44,082,543
Payments to Employees and Fringe Benefits	(53,925,778)
Payments to Vendors and Suppliers	(41,367,382)
Payments for Scholarships and Fellowships	(7,616,689)
Loans Issued	(1,591,028)
Collection of Loans	1,585,980
Interest Earned on Loans	11,625
Other Receipts	874,032
	<hr/>
Net Cash Used by Operating Activities	(57,946,697)
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	57,624,051
Noncapital Grants	1,047,373
Noncapital Gifts	323,339
Related Activity Agency Receipts	25,052,993
Related Activity Agency Disbursements	(25,052,993)
Additions to Endowments	433,656
Other Payments	(1,614,017)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	57,814,402
	<hr/>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	2,055,000
State Capital Appropriations	1,606,000
Capital Grants	5,592,353
Proceeds from Sale of Assets	36,049
Purchases of Capital Assets	(7,370,823)
Principal Paid on Capital Debt and Leases	(1,230,431)
Interest and Fees Paid on Capital Debt and Leases	(1,596,444)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(908,296)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	14,208,765
Investment Income	164,239
Purchase of Investments and Related Fees	(12,316,207)
	<hr/>
Net Cash Provided by Investing Activities	2,056,797
	<hr/>
Net Increase in Cash and Cash Equivalents	1,016,206
Cash and Cash Equivalents - July 1, 2007	22,631,379
	<hr/>
Cash and Cash Equivalents - June 30, 2008	\$ 23,647,585
	<hr/> <hr/>

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

Exhibit A-3

Page 2

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

Operating Loss	\$	(64,029,192)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		5,532,450
Allowances, Write-Offs, and Amortizations		138,000
Changes in Assets and Liabilities:		
Receivables (Net)		(280,092)
Inventories		(472,344)
Accounts Payable and Accrued Liabilities		817,577
Unearned Revenue		114,208
Compensated Absences		169,877
Deposits Payable		67,867
Note Principal Repayments		1,585,980
Notes Issued		(1,591,028)
		<u>(1,591,028)</u>
Net Cash Used by Operating Activities	\$	<u>(57,946,697)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	15,443,445
Restricted Cash and Cash Equivalents		3,422,632
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		4,781,508
		<u>4,781,508</u>
Total Cash and Cash Equivalents - June 30, 2008	\$	<u>23,647,585</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	\$	(129,172)
Change in Fair Value of Investments		(781,206)

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, 2008

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	\$ 945,985	\$ 142,075	\$ 1,154,954
Pooled Investments Held by Fiscal Agent	2,215,457		
Other Investments	30,646		
Accrued Interest Receivable	3,203		10,483
Capital Lease Receivable			32,688,787
Cash Surrender Value of Life Insurance	47,100		
Security Deposits Held in Trust		35,000	
Assets Held by Trustees	76,276	1,233,359	1,621,196
Accounts Receivable	7,639	12,509	
Unconditional Promises to Give, Net	1,185,956		
Prepaid Expenses		23,614	
Deferred Financing Costs, Net		460,577	
Construction in Progress			
Property and Equipment, Net	4,348,794	7,429,990	
Total Assets	8,861,056	9,337,124	35,475,420
LIABILITIES			
Accounts Payable and Accrued Expenses Due to Other Funds	511	48,786	
Deferred Revenue		56,273	
Interest Payable	49,139	40,886	255,175
Accrued Management Fees Payable		40,386	
Tenant Security Deposits Payable		33,750	
Interest Rate Swap Fair Value Liability		914,143	
Mortgage Payable		10,915,000	
Notes Payable	3,142,475		
Certificate of Participation Bonds Payable			22,440,000
Total Liabilities	3,192,125	12,049,224	22,695,175
NET ASSETS (DEFICIT)			
Unrestricted	268,866	(2,712,100)	12,780,245
Temporarily Restricted	3,263,926		
Permanently Restricted	2,136,139		
Total Net Assets (Deficit)	\$ 5,668,931	\$ (2,712,100)	\$ 12,780,245

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, 2008***

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	\$ 75,024	\$ 0	\$ 0
Income Earned on Investments	25,022		
Interest Income		51,680	21,002
Rental and Lease Income		1,285,838	1,606,000
Unrealized Loss on Investments	(2,542)		
Miscellaneous Income		66,625	
Total Unrestricted Revenues and Loss	<u>97,504</u>	<u>1,404,143</u>	<u>1,627,002</u>
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>889,020</u>		
Total Unrestricted Revenues, Loss, and Other Support	<u>986,524</u>	<u>1,404,143</u>	<u>1,627,002</u>
Expenses:			
Contribution to the University of North Carolina at Pembroke	164,110		
Development	184,559		
Property Management Fees		80,436	
Payroll and Related		122,182	
Maintenance and Repairs		80,664	
Utilities		305,386	
Taxes and Insurance		26,327	
Amortization		19,881	
Interest		432,133	900,334
Management and General	454,239		
Professional Fees			200
Fiscal Agent Fees			3,855
Depreciation		289,945	
Change in Fair Value of Interest Rate Swap		809,896	
Other		296,843	43,838
Total Expenses	<u>802,908</u>	<u>2,463,693</u>	<u>948,227</u>
Increase (Decrease) in Unrestricted Net Assets	<u>183,616</u>	<u>(1,059,550)</u>	<u>678,775</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	2,236,257		
Income Earned on Investments	94,661		
Unrealized Loss on Investments	(164,150)		
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>(873,850)</u>		
Increase in Temporarily Restricted Net Assets	<u>1,292,918</u>		
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	201,016		
Income Earned on Investments	752		
Unrealized Gains on Investments	1,197		
Increase in Permanently Restricted Net Assets	<u>202,965</u>		
Increase (Decrease) in Net Assets	1,679,499	(1,059,550)	678,775
Net Assets at Beginning of Year	<u>3,989,432</u>	<u>(1,652,550)</u>	<u>12,101,470</u>
Net Assets at End of Year	<u>\$ 5,668,931</u>	<u>\$ (2,712,100)</u>	<u>\$ 12,780,245</u>

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

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THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

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 are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The University of North Carolina at Pembroke Foundation, Inc. acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 10 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

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

During the year ended June 30, 2008, the University of North Carolina at Pembroke Foundation, Inc. distributed \$164,110 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundations can be obtained from the University’s Office of Business Affairs.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 15 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

L. Net Assets – The University’s net assets are classified as follows:

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$23,617,871 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 2.9 years as of June 30, 2008. 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, 2008 was \$26,321. The carrying amount of the University's deposits not with the State Treasurer was \$3,393 and the bank balance was \$8,901. 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, 2008, the University's bank balance was covered by federal depository insurance and was not exposed to custodial credit risk.

B. Investments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Investments of the University's component units, The University of North Carolina at Pembroke Foundation, Inc., The UNCP University Foundation, LLC, and the UNCP Student Housing Foundation, LLC, are subject to and restricted by G.S. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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, 2008, 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	\$ 304,958	\$ 0	\$ 228,719	\$ 76,239	\$ 0
Collateralized Mortgage Obligations	497,729			398,183	99,546
State and Local Government	498,140		323,791	174,349	
Mutual Bond Funds	647,500	647,500			
Money Market Mutual Funds	1,044,090	1,044,090			
Domestic Corporate Bonds	1,541,861	925,116	477,977	138,768	
		<u>\$ 2,616,706</u>	<u>\$ 1,030,487</u>	<u>\$ 787,539</u>	<u>\$ 99,546</u>
Other Securities					
Domestic Stocks	4,040,228				
Foreign Stocks	1,457,561				
Other	150,000				
Total Long-Term Investment Pool	<u>\$ 10,182,067</u>				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

At June 30, 2008, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
Collateralized Mortgage Obligations	\$ 497,729	\$ 497,729	\$ 0	\$ 0	\$ 0	\$ 0
State and Local Government	498,140	498,140				
Mutual Bond Funds	647,500	647,500				
Money Market Mutual Funds	1,044,090	1,044,090				
Domestic Corporate Bonds	1,541,861	61,674	370,047	632,163	477,977	

Rating Agency: Standard & Poor's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foreign Currency Risk: The University Endowment Board's investment policy permits the money managers to invest in foreign securities. At June 30, 2008, the Long-Term Investment Pool's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value (U.S. Dollars)
Foreign Stock	Argentinean Peso	\$ 341
Foreign Stock	Australian Dollar	37,872
Foreign Stock	Euro	324,707
Foreign Stock	Bermudian Dollar	77,662
Foreign Stock	Brazilian Real	36,353
Foreign Stock	Bulgarian Lev	142
Foreign Stock	Canadian Dollar	133,161
Foreign Stock	Cayman Island Dollar	59,899
Foreign Stock	Chilean Peso	369
Foreign Stock	Renminbi Yuan	17,128
Foreign Stock	Colombian Peso	171
Foreign Stock	Egyptian Pound	227
Foreign Stock	Ecuador Sucre	540
Foreign Stock	French Franc	114,163
Foreign Stock	Ghanaian Cedi	227
Foreign Stock	Indonesian Rupiah	1,478
Foreign Stock	Irish Punt	497
Foreign Stock	West African CFA Franc	85
Foreign Stock	Japanese Yen	228,477
Foreign Stock	Kazakhstani Tenge	739
Foreign Stock	Korean Won	19,514
Foreign Stock	Malaysian Ringgit	284
Foreign Stock	Mexican Peso	3,667
Foreign Stock	Nigerian Naira	369
Foreign Stock	Norwegian Krone	18,077
Foreign Stock	Panamanian Balboa	796
Foreign Stock	Peruvian Nuevo Sol	1,677
Foreign Stock	Philippine Peso	1,933
Foreign Stock	Qatari Rial	227
Foreign Stock	Russian Ruble	17,875
Foreign Stock	South African Rand	26,991
Foreign Stock	Japanese Won	19,862
Foreign Stock	Swedish Krona	4,200
Foreign Stock	Swiss Franc	45,239
Foreign Stock	New Taiwan Dollar	7,891
Foreign Stock	Trinidad Dollar	256
Foreign Stock	Turkish Lira	2,075
Foreign Stock	Ukraine Hryvnia	256
Foreign Stock	British Pound	190,013
Foreign Stock	Other Domestic	59,762
Foreign Stock	Venezuelan Bolivar	2,359
Total		<u>\$ 1,457,561</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Annuity Contracts	\$ 40,000	\$ 0	\$ 0	\$ 0	\$ 40,000
Other Securities					
Insurance Contracts	26,280				
Money Market Mutual Funds	<u>346,726</u>				
Total Non-Pooled Investments	<u><u>\$ 413,006</u></u>				

At June 30, 2008, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	Unrated
Annuity Contracts	\$ 40,000	\$ 40,000
Insurance Contracts	26,280	26,280
Money Market Mutual Funds	<u>346,726</u>	<u>346,726</u>
	<u><u>\$ 413,006</u></u>	<u><u>\$ 413,006</u></u>

Total Investments – The following table presents the fair value of the total investments at June 30, 2008:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 304,958
Collateralized Mortgage Obligations	497,729
State and Local Government	498,140
Annuity Contracts	40,000
Mutual Bond Funds	647,500
Money Market Mutual Funds	1,390,816
Domestic Corporate Bonds	1,541,861
Other Securities	
Domestic Stocks	4,040,228
Foreign Stocks	1,457,561
Other	<u>176,280</u>
Total Investments	<u><u>\$ 10,595,073</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total investments include \$2,215,457 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, 2008 was as follows:

	Book Balance	Market Value
Pooled Investment Funds	\$ 2,219,269	\$ 2,215,457

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2008.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income Earned on Investments	\$ 25,022	\$ 94,661	\$ 752	\$ 120,435
Net Unrealized Gains (Loss)	(2,542)	(164,150)	1,197	(165,495)
Total Investment Return	\$ 22,480	\$ (69,489)	\$ 1,949	\$ (45,060)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008 funds held by the Trustee consist of:

	<u>June 30, 2008</u>
Revenue	\$ 69,076
Reimbursement	20,428
Bond Fund Principal	159,721
Debt Service Reserve	932,681
Residual	49
Other Trustee Funds	<u>51,404</u>
Total	<u><u>\$ 1,233,359</u></u>

The UNCP Student Housing Foundation, LLC

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

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

At June 30, 2008 funds held by the Trustee consist of:

	<u>June 30, 2008</u>
Revenue	\$ 764,690
Construction	856,199
Debt Service Reserve	180
Capitalized Interest	<u>127</u>
Total	<u><u>\$ 1,621,196</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

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

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, 2008, net appreciation of \$954,483 was available to be spent, of which \$936,514 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,857,006	\$ 521,447	\$ 2,335,559
Accounts	289,401		289,401
Intergovernmental	1,009,584		1,009,584
Pledges	69,127	19,881	49,246
Investment Earnings	63,529		63,529
Interest on Loans	1,820		1,820
Other	2,000		2,000
Total Current Receivables	<u>\$ 4,292,467</u>	<u>\$ 541,328</u>	<u>\$ 3,751,139</u>
Noncurrent Receivables:			
Pledges	<u>\$ 163,256</u>	<u>\$ 48,977</u>	<u>\$ 114,279</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 265,320	\$ 59,741	\$ 205,579
Institutional Student Loan Programs	119,583	7,474	112,109
Total Notes Receivable - Current	<u>\$ 384,903</u>	<u>\$ 67,215</u>	<u>\$ 317,688</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,073,948</u>	<u>\$ 208,818</u>	<u>\$ 865,130</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as Restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 2,085,642	\$ 0	\$ 0	\$ 2,085,642
Art, Literature, and Artifacts	168,730			168,730
Construction in Progress	4,441,199	4,917,855	7,291,757	2,067,297
Total Capital Assets, Nondepreciable	6,695,571	4,917,855	7,291,757	4,321,669
Capital Assets, Depreciable:				
Buildings	124,368,789	8,138,573		132,507,362
Machinery and Equipment	9,073,944	1,156,263	606,429	9,623,778
General Infrastructure	15,791,976	673,317	38,500	16,426,793
Total Capital Assets, Depreciable	149,234,709	9,968,153	644,929	158,557,933
Less Accumulated Depreciation/Amortization for:				
Buildings	20,316,169	3,408,521		23,724,690
Machinery and Equipment	5,231,173	1,291,005	489,853	6,032,325
General Infrastructure	3,008,946	832,924	23,100	3,818,770
Total Accumulated Depreciation	28,556,288	5,532,450	512,953	33,575,785
Total Capital Assets, Depreciable, Net	120,678,421	4,435,703	131,976	124,982,148
Capital Assets, Net	\$ 127,373,992	\$ 9,353,558	\$ 7,423,733	\$ 129,303,817

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 2,473,476
Accrued Payroll	485,820
Contract Retainage	525,770
Total Accounts Payable and Accrued Liabilities	\$ 3,485,066

NOTE 7 - SHORT-TERM DEBT – LETTERS OF CREDIT

A. University – The University borrowed funds from Branch Banking and Trust Company to begin construction on the Football and Multipurpose Facility. The University of North Carolina General Administration issued bonds in April 2008 on behalf of the University of North Carolina at Pembroke, and a portion of the proceeds were used to retire the debt with Branch Banking and Trust Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Short-term debt activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Draws	Repayments	Balance June 30, 2008
Line of Credit	\$ 0	\$ 2,055,000	\$ 2,055,000	\$ 0

B. Component Unit – UNCP University Foundation, LLC - In connection with the long-term debt the Foundation has a letter of credit in the amount of \$11,775,445 with Wachovia Bank, National Association, formerly know as First Union National Bank. The letter of credit serves as a credit enhancement to the bonds and expires February 12, 2010. There has been no activity on this line of credit during the 2008 fiscal year.

NOTE 8 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	\$ 10,770,000	\$ 2,055,000	\$ 550,000	\$ 12,275,000	\$ 565,000
Notes Payable	500,000		95,571	404,429	97,736
Capital Leases Payable	34,171,860		584,860	33,587,000	609,681
Compensated Absences	2,822,735	3,471,787	3,301,910	2,992,612	250,482
Total Long-Term Liabilities	\$ 48,264,595	\$ 5,526,787	\$ 4,532,341	\$ 49,259,041	\$ 1,522,899

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008	Principal Outstanding June 30, 2008	See Table Below
<u>The University of North Carolina System Pool Revenue Bonds</u>							
Housing System	1998B	4.0%-5.25%	09/25/2018	\$ 3,130,000	\$ 1,010,000	\$ 2,120,000	(1)
Recreational Facilities	2006B	3.75%-5.00%	09/25/2021	816,940	50,000	766,940	
Dining System	2006B	3.75%-5.00%	09/25/2016	518,060	45,000	473,060	
University Center Expansion Supplement	2006B	3.75%-5.00%	09/25/2026	1,965,000	65,000	1,900,000	
Recreational Center Improvements	2002B	3.5%-5.00%	03/10/2012	605,000	320,000	285,000	
Surface Parking Lot	2002B	3.5%-5.00%	03/10/2012	285,000	150,000	135,000	
University Center Renovations & Expansion Auxiliary Services							
Complex & Student Recreational Facility	2003D	2.0%-4.75%	03/10/2028	5,270,000	730,000	4,540,000	
Multipurpose Facility - Athletic Field House	2008E	3.0%-5.0%	10/01/2033	<u>2,055,000</u>		<u>2,055,000</u>	
Total Bonds Payable				<u>\$ 14,645,000</u>	<u>\$ 2,370,000</u>	<u>\$ 12,275,000</u>	

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues	2,707,841	246,331	246,331	<u>51%</u>

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2008, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2009	\$ 565,000	\$ 536,683	\$ 97,736	\$ 18,321
2010	640,000	514,284	99,950	13,893
2011	670,000	487,814	102,214	9,365
2012	690,000	459,742	104,529	4,735
2013	605,000	429,649		
2014-2018	3,270,000	1,741,946		
2019-2023	2,575,000	1,084,415		
2024-2028	2,535,000	516,309		
2029-2033	590,000	110,619		
2034	<u>135,000</u>	<u>3,375</u>		
Total Requirements	<u>\$ 12,275,000</u>	<u>\$ 5,884,836</u>	<u>\$ 404,429</u>	<u>\$ 46,314</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

D. Prior Year Defeasances – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University’s financial statements. At June 30, 2008, the outstanding balance of prior year defeased bonds was \$1,255,000.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2008	Principal Outstanding June 30, 2008
Noncapitalized Banner Software and Equipment	Branch Banking & Trust	4.53%	01/05/2012	\$ 500,000	\$ 95,571	\$ 404,429

F. Component Units – Long-Term Debt

UNCP University Foundation, LLC – Long-term debt consists of \$10,915,000 at June 30, 2008. 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, 2008, in the amount of \$914,143. This value represents the fair value of the current difference in interest paid and received under the swap agreement over the remaining term of the agreement. Payments are recognized in current operating results as settlements as they occur under the agreement as a component of interest expense.

The portions of the settlement payments that are effective as a cash flow hedge are included as a component of interest expense and resulting an

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

effective interest rate of 3.955 percent. The ineffective portion of the settlement payments in fiscal year 2008 was \$26,629 and has been included in the change in fair value of the interest rate swap. The swap matures July 1, 2031. Only interest payments are due under the swap agreement. Total payments due during the next 12 months, net of receipts, are not reasonably estimable because fluctuations in interest rates cannot be estimated.

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

The first monthly interest payment on the bonds began on July 1, 2001. As of June 30, 2008, \$40,886 is accrued.

Maturities of long-term debt at June 30, 2008, are as follows:

2009	\$	170,000
2010		205,000
2011		240,000
2012		255,000
2013		270,000
Thereafter		<u>9,775,000</u>
Total		10,915,000
Less Current Maturities		<u>(170,000)</u>
Net Long-Term Portion	\$	<u><u>10,745,000</u></u>

The UNCP Student Housing Foundation, LLC

Long-term debt at June 30, 2008, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated as of January 1, 2004, between the Housing LLC and UNCP and agreed to pay the Trustee (First-Citizens Bank & Trust Company) as base rentals amounts that correspond to the rental payments required to be paid by the State under the Lease.

The principal and interest are payable in semi-annual installments of interest and annual installments of principal from the amounts payable by UNCP and amounts held under the Indenture and its provisions. The bonds bear interest at various rates up to 5 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 as of June 30, 2008 also consists of tax exempt Series 2006 Certificate of Participation bonds dated April 19, 2006, and due at various intervals through 2037 used to finance (1) the cost of the construction, acquisition and equipping of an approximately 360-bed student housing facility on the campus of The University of North Carolina at Pembroke, (2) the payment of capitalized interest with respect to the 2006 Certificates during construction of the new project, (3) the payment of the premium for the financial guaranty insurance policy, (4) the payment of premiums on the debt service reserve fund policies, and (5) the payment of certain expenses incurred in connection with the execution and delivery of the 2006 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January, 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

obligations of the State to pay the rental payments required under the lease pursuant to the terms of a Use Agreement dated as of January 1, 2004, between the Housing LLC and UNCP and agreed to pay the Trustee (First-Citizens Bank & Trust Company) as base rentals amounts that correspond to the rental payments required to be paid by the State under the Lease.

The principal and interest are payable in semi-annual installments of interest and annual installments of principal from the amounts payable by UNCP and amounts held under the Indenture and its provisions. The bonds bear interest at various rates up to 5 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, 2008 are as follows:

Fiscal Year	Principal	Interest
2009	\$ 380,000	\$ 765,525
2010	415,000	753,400
2011	450,000	844,825
2012	500,000	766,000
2013	520,000	1,455,050
Thereafter	20,175,000	13,512,121
Total Requirements	22,440,000	18,096,921
Less: Current Maturities	380,000	765,525
Net Long-Term Portion	\$ 22,060,000	\$ 17,331,396

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, 2008:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 2,014,000
2010	2,014,000
2011	2,014,000
2012	2,014,000
2013	2,014,000
2014-2018	10,070,000
2019-2023	10,070,000
2024-2028	10,070,000
2029-2033	10,070,000
2034-2037	<u>8,056,000</u>
Total Minimum Lease Payments	58,406,000
Amount Representing Interest (4.20% Rate of Interest)	<u>24,819,000</u>
Present Value of Future Lease Payments	<u><u>\$ 33,587,000</u></u>

Buildings acquired under capital lease amounted to \$34,171,860 at June 30, 2008.

- B. Operating Lease Obligations** – The University did not enter into any noncancelable operating leases during fiscal year 2008. Rental expense for all operating leases during the year was \$445,739.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 21,386,151	\$ 0	\$ 2,826,688	\$ 521,446	\$ 18,038,017
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 5,686,704	\$ 550,969	\$ 747,012	\$ 0	\$ 4,388,723
Dining	3,797,016	367,883	476,161		2,952,972
Student Union Services	92,430	8,956			83,474
Health, Physical Education, and Recreation Services	1,032,796	100,065	219,973		712,758
Bookstore	4,360,015	422,429	332,143		3,605,443
Parking	312,398	30,267			282,131
Athletic	213,323	20,668			192,655
Other	1,564,802	151,609			1,413,193
Sales and Services of Education and Related Activities	318,668	114,955			203,713
Total Sales and Services	\$ 17,378,152	\$ 1,767,801	\$ 1,775,289	\$ 0	\$ 13,835,062

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	\$ 28,847,336	\$ 1,396,690	\$ 2,138,057	\$ 575	\$ 2,783	\$ 0	\$ 32,385,441
Research	256,833	13,937	31,495				302,265
Public Service	1,297,881	113,359	679,055	68,250			2,158,545
Academic Support	6,465,924	2,784,746	1,773,260	860			11,024,790
Student Services	3,433,104	395,868	2,811,445				6,640,417
Institutional Support	6,707,629	856,375	2,783,517		988		10,348,509
Operations and Maintenance of Plant	5,047,939	3,598,825	3,031,919		2,574,114		14,252,797
Student Financial Aid			141,233	7,545,374			7,686,607
Auxiliary Enterprises	2,033,172	5,176,674	9,049,490	1,630	1,342,174		17,603,140
Depreciation						5,532,450	5,532,450
Total Operating Expenses	\$ 54,089,818	\$ 14,336,474	\$ 22,439,471	\$ 7,616,689	\$ 3,920,059	\$ 5,532,450	\$ 107,934,961

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$44,208,493, of which \$21,070,827 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$642,660 and \$1,264,250, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$642,660, \$505,038, and \$396,215, 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 Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2008, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$44,208,493, of which \$18,002,559 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,231,375 and \$1,080,154, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$233,624 for the year ended June 30, 2008.

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%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, were \$23,311. The voluntary contributions by employees amounted to \$170,799 for the year ended June 30, 2008.

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 \$426,307 for the year ended June 30, 2008.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$1,602,009, \$1,306,184, and \$1,153,739, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$203,182, \$178,741, and \$157,880, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 14 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are 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 deductible, except theft losses are subject to 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

such coverage are workers' compensation for non approved 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.

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$3,521,559 and on other purchases were \$321,630 at June 30, 2008.
- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 2,075,461

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 48, requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and how long they will continue to do so.

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 111,965,066
Restatement: Correction of an Error Related to Capital Assets	<u>102,824</u>
July 1, 2007 Net Assets as Restated	<u><u>\$ 112,067,890</u></u>

NOTE 18 - SUBSEQUENT EVENTS

University - The fair market value of the University's professionally managed endowment decreased 24.1% for the period June 30, 2008 through December 31, 2008.

The change is primarily due to the unrealized loss on these investments as a result of the volatile and unstable world-wide financial market. It is expected that this downward trend will continue into the foreseeable future. University and Foundation management, along with their investment management advisors, plan to continue their efforts of monitoring these investments to minimize any significant losses

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Beth A. Wood, CPA
State Auditor

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

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, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated July 1, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

**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 (CONTINUED)**

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 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*.

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

The University's response to the finding identified in our audit is 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, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

July 1, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

INAPPROPRIATE INFORMATION SYSTEM ACCESS

The University allowed information system access rights inconsistent with adequate internal control. As a result, there was an increased risk of error or misappropriation.

We identified three employees who continued to have system access after their termination and 12 employees who had system access rights inconsistent with their job duties. Prudent internal control principles require that users be given access only to the specific computer resources needed for their job duties, and upon termination, access should be revoked to prevent unauthorized access to university data.

Recommendation: The University should improve internal control over computer system access. Personnel should only be granted the necessary system access to perform their job duties, and access should be revoked in a timely manner upon termination of employment.

University Response: The University of North Carolina at Pembroke agrees that three terminated employees' system access had not been deleted and twelve employees had system access inconsistent with job duties. System access for each employee has been updated to comply with the recommendation. To control access University wide procedures in Banner Finance and Accounts Receivable have been implemented to ensure that system access is promptly deleted after termination and employees are granted the least amount of system access to adequately perform job duties. Two employees in the Controller's office have been assigned responsibility to ensure that the new procedures are implemented and to coordinate issues related to terminating access and granting access. They will also periodically monitor employee access to ensure compliance with system access procedures.

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