

STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

ERSKINE B. BOWLES, PRESIDENT

BOARD OF TRUSTEES

FREDA PORTER, CHAIRMAN

ADMINISTRATIVE OFFICERS

CHARLES R. JENKINS, INTERIM CHANCELLOR

R. NEIL HAWK, VICE CHANCELLOR FOR BUSINESS AFFAIRS



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves 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, 2009, 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 a deficiency that is detailed in the Audit Findings and Responses section of this report. The University's response is included following the finding.

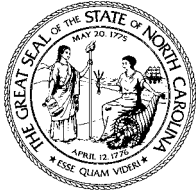
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets	11
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	13
A-3 Statement of Cash Flows	14
Component Unit Exhibits	
B-1 Statement of Financial Position	16
B-2 Statement of Activities	17
Notes to the Financial Statements	19
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	51
AUDIT FINDINGS AND RESPONSES	55
ORDERING INFORMATION	57



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

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

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, 2009, 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'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 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, and The UNCP Student Housing Foundation LLC were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

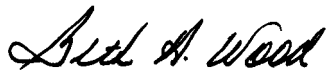
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Pembroke and its discretely presented component units as of June 30, 2009, 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2010 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, 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

March 4, 2010

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 2009 and 2008, as well as pertinent facts, decisions, and conditions.

Using the Financial Statements

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

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

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

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

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 2009 To 2008

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

Analysis of Overall Financial Position – Statement of Net Assets

Total assets decreased by \$6,323,904 or 4.05% from the prior year. Current assets decreased by \$4,692,828 or 19.18%. Other noncurrent assets decreased by \$1,795,350 or 12.29% from the previous year.

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

Total liabilities decreased by \$1,445,639 or 3.19% from the previous year. Current liabilities decreased by \$268,627 or 4.90% while noncurrent liabilities decreased by \$1,177,012 or 2.95%. The decline in liabilities is a reflection of a reduction in purchasing mandated by the Office of State Budget and Management, the University's continuing effort to process vendor payments timely to ensure good vendor relations, and processing invoices to take advantage of discounts for early payment.

Restricted expendable net assets consist of income from endowment funds, gifts, pledges with specific restrictions, and grants from third party agencies with expenditure restrictions. Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the principal given and certain loan funds. Unrestricted net assets consist primarily

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

of University and student auxiliaries, scholarship funds from unrestricted sources, and overhead receipts balances.

The University's endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donor. Funds functioning as endowments are restricted gifts and/or unrestricted funds that have been designated by the University for long-term investment purposes, although amounts are not subject to donor restrictions requiring the University to preserve the principal in perpetuity. Total additions to endowments were \$1,188,853. Programs supported by endowments include scholarships, professorships, and various other programs and activities.

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

The Statement of Revenues, Expenses, and Changes in Net Assets shows that operating revenues increased by \$2,128,641 or 5.93% over the previous year. Student tuition and fees increased by \$1,576,657 as a result of increased enrollment. Sales and services revenues increased by \$862,250 or 6.23% from the previous year due to an increase in student enrollment and an increase in athletic revenue from continuing popularity of the football program.

Operating expenses decreased by \$2,686,135 or 2.50% from the previous year reflecting decreases in spending resulting from reduced state appropriations and required spending reductions issued by the Office of State Budget and Management. Salaries and benefit expenses increased by \$5,287,232 or 9.77% reflecting a legislative increase approved by the State and increases in employer expenses for retirement and health insurance. Supplies and materials decreased by \$6,445,300 or 44.96% and services expenses decreased by \$1,906,813 or 8.5%. The reduction in operating expenses is a reflection of the impact of the economy on University operations.

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

Total operating loss for 2009 was \$66,833,745. Since the revenue from the State of North Carolina appropriation and Student Financial Aid grants are 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 \$104,836,182 include salaries and benefits of \$59,377,050, supplies and materials of \$7,891,174, services of \$20,532,658, scholarships and fellowships of \$7,492,803, utilities of \$3,999,851, and depreciation of \$5,542,646.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparative Summary of Revenues by Class

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

	June 30, 2009	(as restated) June 30, 2008
Student Tuition and Fees (Net)	\$ 19,614,674	\$ 18,038,017
Federal Grants and Contracts	2,820,872	2,400,606
State and Local Grants and Contracts	405,523	769,624
Nongovernmental Grants and Contracts	96,368	49,760
Sales and Services (Net)	14,697,312	13,835,062
Other Operating Revenues	367,688	780,727
Total Operating Revenues	\$ 38,002,437	\$ 35,873,796

Comparative Summary of Expenses by Functional Classification

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

	June 30, 2009	(as restated) June 30, 2008
Instruction	\$ 33,755,311	\$ 32,385,441
Research	222,805	302,265
Public Service	2,412,456	2,158,545
Academic Support	10,399,541	11,024,790
Student Services	6,800,273	6,640,417
Institutional Support	9,054,988	10,348,509
Operations & Maintenance of Plant	12,496,858	14,252,797
Student Financial Aid	7,610,071	7,686,607
Auxiliary Enterprises	16,541,233	17,603,140
Depreciation	5,542,646	5,119,806
Total Operating Expenses	\$ 104,836,182	\$ 107,522,317

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparative Summary of Expenses by Class

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE		
OPERATING EXPENSES BY CLASS		
	June 30, 2009	(as restated) June 30, 2008
Salaries and Benefits	\$ 59,377,050	\$ 54,089,818
Supplies and Materials	7,891,174	14,336,474
Services	20,532,658	22,439,471
Scholarships and Fellowships	7,492,803	7,616,689
Utilities	3,999,851	3,920,059
Depreciation	5,542,646	5,119,806
Total Operating Expenses	\$ 104,836,182	\$ 107,522,317

Analysis of Net Asset Balances

At June 30, 2009, the gross value of plant assets was \$154,839,856. Accumulated depreciation was \$37,717,172 and related plant asset debt was \$33,736,317.

Restricted expendable net assets totaled \$5,423,941 and restricted nonexpendable net assets totaled \$8,352,297, both representing amounts subject to externally imposed restrictions.

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

Capital Assets and Long - Term Debt

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

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

At June 30, 2009, the University had outstanding bond indebtedness in the amount of \$11,710,000 of which \$640,000 is due within the next year, capital leases payable of \$22,026,317 of which \$406,378 is due within the next year and notes payable of \$306,693 of which \$99,950 is due within the next year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Enrollment Activities

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

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

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

Payroll Project

The University, in coordination with the University of North Carolina General Administration and SunGard Higher Education, is developing a new University Payroll system. The University of North Carolina General Administration will house a Shared Services office and will assume the responsibilities previously performed by the Office of the State Controller's Central Payroll staff. A committee has been established consisting of University staff, University of North Carolina General Administration staff and SunGard Higher Education consultants to work on reporting, technical and functional issues and to clarify University departmental and organizational processes. The committee will also determine specific duties of University and Shared Services employees related to Payroll processing and subsequent reporting. The Payroll project began in fiscal year 2008 and is expected to be fully implemented during fiscal year 2010.

Economic Factors and Future Operations

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

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

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, 2009 AND JUNE 30, 2008

	FY09	(as restated) FY08	Increase/ Decrease	Percent Change
STATEMENTS OF NET ASSETS				
Current Assets	\$ 19,771,931	\$ 24,464,759	\$ (4,692,828)	-19.18%
Capital Assets, Net	117,122,684	116,958,410	164,274	0.14%
Other Noncurrent Assets	12,810,010	14,605,360	(1,795,350)	-12.29%
TOTAL ASSETS	149,704,625	156,028,529	(6,323,904)	-4.05%
Current Liabilities	5,215,426	5,484,053	(268,627)	-4.90%
Noncurrent Liabilities	38,666,018	39,843,030	(1,177,012)	-2.95%
TOTAL LIABILITIES	43,881,444	45,327,083	(1,445,639)	-3.19%
Invested in Capital Assets, Net of Related Debt Restricted	83,386,367	82,267,581	1,118,786	1.36%
Expendable	5,423,941	7,648,759	(2,224,818)	-29.09%
Nonexpendable	8,352,297	7,156,792	1,195,505	16.70%
Unrestricted	8,660,576	13,628,313	(4,967,737)	-36.45%
TOTAL NET ASSETS	\$ 105,823,181	\$ 110,701,445	\$ (4,878,264)	-4.41%
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Student Tuition and Fees, Net	\$ 19,614,674	\$ 18,038,017	\$ 1,576,657	8.74%
Grants and Contracts	3,322,763	3,219,990	102,773	3.19%
Sales and Services, Net	14,697,312	13,835,062	862,250	6.23%
Other Operating Revenues	367,688	780,727	(413,039)	-52.90%
TOTAL OPERATING REVENUES	38,002,437	35,873,796	2,128,641	5.93%
Salaries and Benefits	59,377,050	54,089,818	5,287,232	9.77%
Supplies and Materials	7,891,174	14,336,474	(6,445,300)	-44.96%
Services	20,532,658	22,439,471	(1,906,813)	-8.50%
Scholarships and Fellowships	7,492,803	7,616,689	(123,886)	-1.63%
Utilities	3,999,851	3,920,059	79,792	2.04%
Depreciation	5,542,646	5,119,806	422,840	8.26%
TOTAL OPERATING EXPENSES	104,836,182	107,522,317	(2,686,135)	-2.50%
OPERATING LOSS	(66,833,745)	(71,648,521)	4,814,776	-6.72%
State Appropriations	50,448,094	57,624,051	(7,175,957)	-12.45%
State Aid - Federal Recovery Funds	1,808,539	1,808,539	-	100.00%
Noncapital Grants and Gifts	10,243,346	9,404,047	839,299	8.92%
Other Nonoperating Expenses	(3,442,881)	(1,931,503)	(1,511,378)	78.25%
NET NONOPERATING REVENUES	59,057,098	65,096,595	(6,039,497)	-9.28%
Capital Grants	2,219,170	4,521,194	(2,302,024)	-50.92%
Refund of Prior Years Capital Appropriations	(584,640)	-	(584,640)	-100.00%
Capital Appropriations	75,000	1,606,000	(1,531,000)	-95.33%
Additions to Permanent Endowments	1,188,853	433,656	755,197	174.15%
DECREASE IN NET ASSETS	(4,878,264)	8,924	(4,887,188)	-54764.85%
NET ASSETS-BEGINNING OF YEAR	110,701,445	110,589,697	111,748	0.10%
NET ASSET RESTATEMENT	-	102,824	(102,824)	-
NET ASSETS-END OF YEAR	\$ 105,823,181	\$ 110,701,445	\$ (4,878,264)	-4.41%

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 11,709,635
Restricted Cash and Cash Equivalents	2,955,238
Receivables, Net (Note 4)	2,925,192
Inventories	1,826,412
Notes Receivable, Net (Note 4)	355,454
	<hr/>
Total Current Assets	19,771,931
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	3,850,032
Receivables, Net (Note 4)	96,816
Restricted Due from Primary Government	26,666
Endowment Investments	7,895,919
Other Investments	52,381
Notes Receivable, Net (Note 4)	888,196
Capital Assets - Nondepreciable (Note 5)	3,948,822
Capital Assets - Depreciable, Net (Note 5)	113,173,862
	<hr/>
Total Noncurrent Assets	129,932,694
	<hr/>
Total Assets	149,704,625
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,771,924
Due to Primary Government	337,663
Unearned Revenue	535,296
Interest Payable	145,880
Long-Term Liabilities - Current Portion (Note 8)	1,424,663
	<hr/>
Total Current Liabilities	5,215,426
	<hr/>

Noncurrent Liabilities:

Deposits Payable	234,008
Funds Held for Others	1,410,289
U. S. Government Grants Refundable	1,290,033
Long-Term Liabilities (Note 8)	35,731,688
	<hr/>
Total Noncurrent Liabilities	38,666,018
	<hr/>
Total Liabilities	43,881,444
	<hr/>

The University of North Carolina at Pembroke
Statement of Net Assets
June 30, 2009

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	83,386,367
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,849,518
Endowed Professorships	4,109,951
Departmental Uses	149,293
Loans	243,535
Expendable:	
Departmental Uses	1,438,698
Capital Projects	3,985,243
Unrestricted	<u>8,660,576</u>
Total Net Assets	<u>\$ 105,823,181</u>

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

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

Exhibit A-2

REVENUES

Operating Revenues:

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

Total Operating Revenues	38,002,437
--------------------------	------------

EXPENSES

Operating Expenses:

Salaries and Benefits	59,377,050
Supplies and Materials	7,891,174
Services	20,532,658
Scholarships and Fellowships	7,492,803
Utilities	3,999,851
Depreciation	5,542,646

Total Operating Expenses	104,836,182
--------------------------	-------------

Operating Loss	(66,833,745)
----------------	--------------

NONOPERATING REVENUES (EXPENSES)

State Appropriations	50,448,094
State Aid - Federal Recovery Funds	1,808,539
Noncapital Grants - Federal Student Financial Aid	9,321,990
Other Noncapital Grants	223,582
Noncapital Gifts, Net	697,774
Investment Loss	(571,490)
Interest and Fees on Debt	(2,790,490)
Other Nonoperating Expenses	(80,901)

Net Nonoperating Revenues	59,057,098
---------------------------	------------

Income Before Other Revenues and Expenses	(7,776,647)
---	-------------

Capital Appropriations	75,000
Refund of Prior Years Capital Appropriations	(584,640)
Capital Grants	2,219,170
Additions to Endowments	1,188,853

Decrease in Net Assets	(4,878,264)
------------------------	-------------

NET ASSETS

Net Assets - July 1, 2008, as restated (Note 17)	110,701,445
--	-------------

Net Assets - June 30, 2009	\$ 105,823,181
----------------------------	----------------

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

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

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

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

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	50,448,094
State Aid - Federal Recovery Funds	1,808,539
Noncapital Grants - Federal Student Financial Aid	9,321,990
Noncapital Grants	551,391
Noncapital Gifts	697,774
Additions to Endowments	1,188,853
Related Activity Agency Receipts	25,594,731
Related Activity Agency Disbursements	(25,717,381)
Other Receipts	77,430
	<hr/>
Net Cash Provided by Noncapital Financing Activities	63,971,421

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	75,000
Refund of Prior Years Capital Appropriations	(584,640)
Capital Grants	2,657,330
Proceeds from Sale of Capital Assets	3,805
Acquisition and Construction of Capital Assets	(6,362,435)
Principal Paid on Capital Debt and Leases	(1,052,248)
Interest and Fees Paid on Capital Debt and Leases	(2,784,740)
Other Payments	(5,750)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(8,053,678)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	7,077,980
Investment Income	612,553
Purchase of Investments and Related Fees	(7,740,370)
	<hr/>
Net Cash Used by Investing Activities	(49,837)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(5,132,680)
Cash and Cash Equivalents - July 1, 2008	23,647,585
	<hr/>
Cash and Cash Equivalents - June 30, 2009	\$ 18,514,905

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

Exhibit A-3

Page 2

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

Operating Loss	\$	(66,833,745)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		5,542,646
Allowances, Write-Offs, and Amortizations		(146,580)
Changes in Assets and Liabilities:		
Receivables (Net)		890,022
Inventories		(296,557)
Accounts Payable and Accrued Liabilities		(213,459)
Unearned Revenue		2,666
Compensated Absences		120,729
Deposits Payable		(66,308)
		<u>(66,308)</u>
Net Cash Used by Operating Activities	<u>\$</u>	<u>(61,000,586)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	11,709,635
Restricted Cash and Cash Equivalents		2,955,238
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,850,032
		<u>3,850,032</u>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$</u>	<u>18,514,905</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$	(1,463,965)
Loss on Disposal of Capital Assets		144,133

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

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

Exhibit B-1

	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	\$ 1,032,518	\$ 133,757	\$ 967,485
Pooled Investments Held by Fiscal Agent	2,164,256		
Cash Surrender Value of Life Insurance	49,938		
Tenant Security Deposits		41,686	
Assets Held by Trustees		1,211,639	1,589,805
Capital Lease Receivable			22,026,317
Interest Receivable	1,380		1,717
Unconditional Promises to Give, Net	737,618		
Accounts Receivable		22,538	37,700
Prepaid Expenses		32,702	
Deferred Financing Costs, net		440,696	
Property and Equipment, Net	4,240,398	7,217,828	
Total Assets	8,226,108	9,100,846	24,623,024
LIABILITIES			
Accounts Payable and Accrued Expenses	4,837	95,632	
Interest Payable	37,173	35,460	272,402
Tenant Security Deposits		38,129	
Prepaid Rent		50,311	
Interest Rate Swap Fair Value Liability		1,564,664	
Notes Payable	2,369,803		
Bonds Payable		10,745,000	22,060,000
Total Liabilities	2,411,813	12,529,196	22,332,402
NET ASSETS			
Unrestricted	233,728	(3,428,350)	2,290,622
Temporarily Restricted	3,267,022		
Permanently Restricted	2,313,545		
Total Net Assets	\$ 5,814,295	\$ (3,428,350)	\$ 2,290,622

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

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

Exhibit B-2

	The 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	\$ 123,318	\$ 0	\$ 0
Income Earned on Investments	21,508		
Unrealized Loss on Investments	(1,957)		
Rental and Lease Income		1,487,812	
Interest Income		32,555	1,050,367
Other Operating Income		66,504	226,000
Total Unrestricted Revenues and Gains	<u>142,869</u>	<u>1,586,871</u>	<u>1,276,367</u>
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>500,656</u>		
Total Net Assets Released from Restrictions	<u>500,656</u>		
Total Unrestricted Revenues, Gains, and Other Support	<u>643,525</u>	<u>1,586,871</u>	<u>1,276,367</u>
Expenses:			
Contributions to the University of North Carolina at Pembroke Development	251,862 (161,830)		
Advertising and Promotional		8,980	
Property Management Fees		82,848	
Salaries and Employee Benefits		127,140	
Maintenance and Repairs		78,445	
Utilities		323,229	
Taxes and Insurance		28,595	
Supplies		21,271	
Interest		420,099	1,030,284
Professional Fees		14,063	2,500
Fiscal Agent Fees			7,410
Depreciation		286,009	
Amortization		19,881	
Management and General	588,631	66,473	452,839
Miscellaneous Financial Expense		122,976	
Change in the Fair Value of Interest Rate Swap		703,112	
Total Expenses	<u>678,663</u>	<u>2,303,121</u>	<u>1,493,033</u>
Decrease in Unrestricted Net Assets	<u>(35,138)</u>	<u>(716,250)</u>	<u>(216,666)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	818,704		
Income Earned on Investments	72,826		
Unrealized Loss on Investments	(387,778)		
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	<u>(500,656)</u>		
Increase in Temporarily Restricted Net Assets	<u>3,096</u>		
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	183,774		
Loss Earned on Investments	(2,956)		
Unrealized Loss on Investments	<u>(3,412)</u>		
Increase in Permanently Restricted Net Assets	<u>177,406</u>		
Increase (Decrease) in Net Assets	145,364	(716,250)	(216,666)
Net Assets at Beginning of Year	<u>5,668,931</u>	<u>(2,712,100)</u>	<u>2,507,288</u>
Net Assets at End of Year	<u>\$ 5,814,295</u>	<u>\$ (3,428,350)</u>	<u>\$ 2,290,622</u>

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

[This Page Left Blank Intentionally]

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The University of North Carolina at Pembroke Foundation Inc. acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 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, 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 organization that reports their financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundations’ financial information in the University’s financial reporting entity for these differences.

During the year ended June 30, 2009, The University of North Carolina at Pembroke Foundation Inc. distributed \$251,862 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation 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, 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 are reported at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

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

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$18,476,064 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was \$15,103. The carrying amount of the University's deposits not with the State Treasurer was \$23,738 and the bank balance was \$18,864. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, the University's bank balance was covered by federal depository insurance and was not exposed to custodial credit risk.

B. Investments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

Investments are subject to the following risks.

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

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

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. The foreign stocks held by the University are traded in currency of the United States, and thus, there is no foreign currency risk for these investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, 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	\$ 764,123	\$ 0	\$ 213,033	\$ 551,090	\$ 0
U.S. Agencies	748,880		625,227		123,653
Asset-Backed Securities	396,608		67,081	207,519	122,008
Mutual Bond Funds	271,424				271,424
Money Market Mutual Funds	667,421	667,421			
Domestic Corporate Bonds	1,459,544	220,193	720,473	518,878	
		<u>\$ 887,614</u>	<u>\$ 1,625,814</u>	<u>\$ 1,277,487</u>	<u>\$ 517,085</u>
Other Securities					
International Mutual Funds	\$ 267,162				
Real Estate Investment Trust	18,500				
Hedge Funds	271,881				
Limited Partnerships	22,279				
Domestic Stocks	3,352,304				
Foreign Stocks	1,738,478				
Managed Futures	81,571				
Total Long-Term Investment Pool	<u>\$ 10,060,175</u>				

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

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	\$ 748,880	\$ 748,880	\$ 0	\$ 0	\$ 0	\$ 0
Asset-Backed Securities	396,608	396,608				
Mutual Bond Funds	271,424				271,424	
Money Market Mutual Funds	667,421	667,421				
Domestic Corporate Bonds	1,459,544	109,601	102,685	815,603	409,878	21,777

Rating Agency: Standard & Poor's

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

Non-Pooled Investments

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

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

	Fair Value	AAA Aaa	Unrated
Annuity Contracts	\$ 102,319	\$ 0	\$ 102,319
Money Market Mutual Funds	1,589,805	1,589,805	

Rating Agency: Standard & Poor's

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

University of North Carolina at Pembroke Foundation Inc.

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

	Book Balance	Market Value
Pooled Investment Funds	\$ 2,553,591	\$ 2,164,256

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

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

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 coverage.

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

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

The UNCP Student Housing Foundation LLC

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

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

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

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

NOTE 3 - ENDOWMENT INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the endowment funds. Under the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University’s endowment donor agreements prohibit spending of nonexpendable balances, and therefore, the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on an adopted spending policy which limits spending to 5.5% of the “average market value” of the endowment funds. The “average market value” is defined as an average of the market values on December 31 of the previous three years. The actual spending may be less than the 5.5% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. During the current year, the University incurred investment losses that exceeded the related endowment’s available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2009 the amount of investment losses reported against the nonexpendable endowment balances were \$1,463,965.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 2,342,571	\$ 352,805	\$ 1,989,766
Accounts	7,048		7,048
Intergovernmental	794,688		794,688
Pledges	154,710	46,413	108,297
Investment Earnings	24,393		24,393
Other	1,000		1,000
Total Current Receivables	<u>\$ 3,324,410</u>	<u>\$ 399,218</u>	<u>\$ 2,925,192</u>
Noncurrent Receivables:			
Pledges	<u>\$ 137,928</u>	<u>\$ 41,112</u>	<u>\$ 96,816</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 342,716	\$ 81,453	\$ 261,263
Institutional Student Loan Programs	106,414	12,223	94,191
Total Notes Receivable - Current	<u>\$ 449,130</u>	<u>\$ 93,676</u>	<u>\$ 355,454</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,073,948</u>	<u>\$ 185,752</u>	<u>\$ 888,196</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, 2009, is presented as follows:

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 2,085,642	\$ 0	\$ 0	\$ 2,085,642
Art, Literature, and Artifacts	168,730			168,730
Construction in Progress	2,067,297	3,591,694	3,964,541	1,694,450
Total Capital Assets, Nondepreciable	4,321,669	3,591,694	3,964,541	3,948,822
Capital Assets, Depreciable:				
Buildings	119,481,375	4,407,676	233,521	123,655,530
Machinery and Equipment	9,623,778	878,327	635,096	9,867,009
General Infrastructure	16,426,793	941,702		17,368,495
Total Capital Assets, Depreciable	145,531,946	6,227,705	868,617	150,891,034
Less Accumulated Depreciation/Amortization for:				
Buildings	23,044,110	3,268,057	160,233	26,151,934
Machinery and Equipment	6,032,325	1,392,640	560,446	6,864,519
General Infrastructure	3,818,770	881,949		4,700,719
Total Accumulated Depreciation	32,895,205	5,542,646	720,679	37,717,172
Total Capital Assets, Depreciable, Net	112,636,741	685,059	147,938	113,173,862
Capital Assets, Net	\$ 116,958,410	\$ 4,276,753	\$ 4,112,479	\$ 117,122,684

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

NOTE 7 - SHORT-TERM DEBT - LETTERS OF CREDIT

Component Unit – UNCP University Foundation LLC – In connection with the long-term debt the Foundation had a letter of credit in the amount of \$11,775,445 with Wachovia Bank, National Association, formerly known as First Union National Bank. The letter of credit served as a credit enhancement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to the bonds and expired February 12, 2010. There was no activity on this line of credit during the 2009 fiscal year.

NOTE 8 - LONG-TERM LIABILITIES

UNIVERSITY

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

	Balance July 1, 2008 (as restated)	Additions	Reductions	Balance June 30, 2009	Current Portion
Revenue Bonds Payable	\$ 12,275,000	\$ 0	\$ 565,000	\$ 11,710,000	\$ 640,000
Notes Payable	404,429		97,736	306,693	99,950
Capital Leases Payable	22,415,829		389,512	22,026,317	406,378
Compensated Absences	2,992,612	582,975	462,246	3,113,341	278,335
Total Long-Term Liabilities	\$ 38,087,870	\$ 582,975	\$ 1,514,494	\$ 37,156,351	\$ 1,424,663

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009	See Table Below
The University of North Carolina System Pool Revenue Bonds							
Housing System	1998B	4.0%-5.25%	09/25/2018	\$ 3,130,000	\$ 1,160,000	\$ 1,970,000	(1)
Recreational Facilities	2006B	3.75%-5.00%	09/25/2021	816,940	100,000	716,940	
Dining System	2006B	3.75%-5.00%	09/25/2016	518,060	95,000	423,060	
University Center Expansion Supplement	2006B	3.75%-5.00%	09/25/2026	1,965,000	130,000	1,835,000	
Recreational Center Improvements	2002B	3.5%-5.00%	03/10/2012	605,000	385,000	220,000	
Surface Parking Lot	2002B	3.5%-5.00%	03/10/2012	285,000	180,000	105,000	
University Center Renovations	2003B	2.0%-4.75%	03/10/2028	3,100,000	520,588	2,579,412	
Auxillary Services Building	2003B	2.0%-4.75%	03/10/2028	1,550,000	260,294	1,289,706	
Recreational Facilities	2003B	2.0%-4.75%	03/10/2028	620,000	104,118	515,882	
Multipurpose Facility - Athletic Field House	2008A	3.0%-5.0%	10/01/2033	2,055,000	0	2,055,000	
Total Bonds Payable				\$ 14,645,000	\$ 2,935,000	\$ 11,710,000	

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues	2,461,509	358,122	246,331	65%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

F. Component Units

UNCP University Foundation LLC - Long-term debt consists of \$10,745,000 at June 30, 2009. Tax-exempt series 2001A term bonds dated January 24, 2001, are due at various intervals through 2031, and are payable in monthly installments of interest and annual installments of principal. The bonds bear interest at various interest rates up to 12 percent, as defined in the Trust Indenture, and are secured by deed and assignment of rents.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 notional amount as the underlying mortgage. However, the variable rate of interest is calculated differently on the swap than on the variable rate bonds plus portions of the bond have fixed interest rates. As a result, the swap is only partially effective as a hedge. Valued separately, the interest rate swap agreement represents a liability as of June 30, 2009 in the amount of 1,564,664. This value represents the fair value of the current difference in interest paid and received under the swap agreement over the remaining term of the agreement. Payments are recognized in current operating results as settlements as they occur under the agreement as a component of interest expense.

The portions of the settlement payments that are effective as a cash flow hedge are included as a component of interest expense and resulting an effective interest rate of 3.955 percent. The ineffective portion of the settlement payments in fiscal year 2009 was \$52,591 and has been included in the change in fair value of the interest rate swap. The swap matures July 1, 2031. Only interest payments are due under the swap agreement. Total payments due during the next 12 months, net of receipts, are not reasonably estimable because of fluctuations in interest rates cannot be estimated.

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

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

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

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

The UNCP Student Housing Foundation LLC

Long-term debt at June 30, 2009, consists of tax exempt Series 2004 Certificate of Participation bonds dated January 1, 2004, and due at various intervals through 2034 used (1) to refinance the cost of the construction, acquisition and equipping of an existing 216-bed student housing facility and to finance the cost of the construction, acquisition and equipping of a 144-bed student housing facility, each on the campus of UNCP in Pembroke, North Carolina, (2) to pay capitalized interest with respect to the portion of the 2004 Certificates allocable to the expansion project during construction thereof, (3) to fund a debt service, and (4) to pay expenses related to the 2004 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of an amended Use Agreement dated as of May 1, 2006 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, 2009 also consists also consists of tax exempt Series 2006 Certificate of Participation bonds dated

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

April 19, 2006, and due at various intervals through 2037 used to finance (1) the cost of the construction, acquisition and equipping of an approximately 360-bed student housing facility on the campus of The University of North Carolina at Pembroke, (2) the payment of capitalized interest with respect to the 2006 Certificates during construction of the new project, (3) the payment of the premium for the financial guaranty insurance policy, (4) the payment of premiums on the debt service reserve fund policies, and (5) the payment of certain expenses incurred in connection with the execution and delivery of the 2006 Certificates. The Housing LLC is leasing the land on which the housing is located from the State of North Carolina pursuant to a Ground Lease Agreement dated April 29, 2003, between the Foundation as lessee, and the State, as lessor, which was assigned by the Foundation to the Housing LLC pursuant to an Assignment and Amendment of Lease Agreement January 2004 between the Foundation, the State and the Housing LLC. The Housing LLC leased all of the leasehold interest to the State pursuant to a Lease Agreement between the Housing LLC and the State dated January 27, 2004, for a period of 30 years through March 1, 2034. UNCP discharged the obligations of the State to pay the rental payments required under the lease pursuant to the terms of an amended Use Agreement dated as of May 1, 2006, 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 held 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 dates as of January 1, 2004, from the Housing LLC to the deed of trust trustee, granting a lien 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTE 9 - LEASE OBLIGATIONS

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

Fiscal Year	Amount
2010	\$ 1,345,635
2011	1,345,635
2012	1,345,635
2013	1,345,635
2014	1,345,635
2015-2019	6,728,173
2020-2024	6,728,173
2025-2029	6,728,173
2030-2034	6,728,173
2035-2037	4,709,719
Total Minimum Lease Payments	38,350,586
Amount Representing Interest (4.28% Rate of Interest)	16,324,269
Present Value of Future Lease Payments	\$ 22,026,317

Buildings acquired under capital lease amounted to \$23,310,000 at June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Operating Lease Obligations - The University entered into operating leases for land, office space and office equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

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

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

NOTE 10 - REVENUES

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 30,854,212	\$ 1,069,543	\$ 1,827,532	\$ 1,000	\$ 3,024	\$ 0	\$ 33,755,311
Research	197,009	8,184	17,612				222,805
Public Service	1,464,758	191,205	755,893	600			2,412,456
Academic Support	7,146,794	1,852,554	1,399,193	1,000			10,399,541
Student Services	3,666,234	348,531	2,785,508				6,800,273
Institutional Support	7,110,951	73,948	1,868,768		1,321		9,054,988
Operations and Maintenance of Plant	5,376,291	2,098,729	2,641,015		2,380,823		12,496,858
Student Financial Aid			122,993	7,487,078			7,610,071
Auxiliary Enterprises	3,560,801	2,248,480	9,114,144	3,125	1,614,683		16,541,233
Depreciation						5,542,646	5,542,646
Total Operating Expenses	<u>\$ 59,377,050</u>	<u>\$ 7,891,174</u>	<u>\$ 20,532,658</u>	<u>\$ 7,492,803</u>	<u>\$ 3,999,851</u>	<u>\$ 5,542,646</u>	<u>\$ 104,836,182</u>

NOTE 12 - PENSION PLANS

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

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

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

For the current fiscal year, the University had a total payroll of \$47,586,571, of which \$23,367,513 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions for pension benefits for the year were \$785,148 and \$1,402,051, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$785,148, \$642,660 and \$505,038, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2009, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$47,586,571, of which \$20,589,585 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,426,796 and \$1,251,575, respectively.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$229,981, \$203,182, and \$178,741, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

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

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

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

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Examples of such coverage are workers' compensation for non appropriated employees, student accident, athletic department guests and recruits, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

The University retained the following risks as of June 30, 2009:

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 \$3,868,001 and on other purchases were \$266,748 at June 30, 2009.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

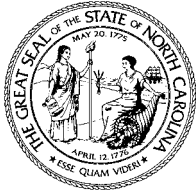
In addition, beginning with the year ended June 30, 2009, the University reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported was restated as follows due to an over-capitalization of assets at the inception of a capital lease for student housing.

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 111,875,681
Restatements:	
Correction of error in capital lease	(1,854,815)
Correction of accumulated depreciation - leased capital asset	<u>680,579</u>
July 1, 2008 Net Assets as Restated	<u><u>\$ 110,701,445</u></u>

[This Page Left Blank Intentionally]



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

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

We have audited 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, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 4, 2010. 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency 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 do not believe that the significant deficiency described above is a material weakness.

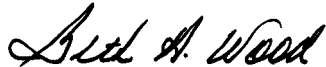
Compliance and Other Matters

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*.

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

**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)**

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

March 4, 2010

[This Page Left Blank Intentionally]

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

INAPPROPRIATE ACCESS TO INFORMATION SYSTEMS AND DATA IMPACTING FINANCIAL REPORTING

The University did not maintain adequate internal control over access to its information systems and data impacting financial reporting. As a result, there is an increased risk of error or fraud occurring without detection.

We identified two employees who continued to have system access after they were no longer employed by the University and numerous employees who had system access rights that did not support adequate segregation of duties. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis. Specifically, we noted the following segregation of duties deficiencies:

- The Controller had access to perform payroll functions, accounts payable functions, and student accounts functions from initiation to completion.
- Four Admission's Office employees and one Registrar's Office employee had inappropriate access to modify student fee rate tables.
- Five employees in purchasing had access to both purchase and receive goods.
- Five Controller's Office employees and nine other employees had access to enter and review charge and payment information in student accounts.

This finding has been reported for four consecutive years.

Recommendation: The University should take appropriate steps to strengthen internal control over access to the computer systems and data and address the deficiencies described above.

Auditee's Response: The University of North Carolina at Pembroke concurs with each item identified in the audit finding. Terminated employees who continued to have system access have been identified and access has been deleted. Employees whose access did not support proper segregation of duties will be reviewed based on new procedures. The Controller's access rights have been reviewed and corrected to comply with your recommendation. Five Purchasing employees' access rights have been modified to comply with your recommendation. Five Controller's Office employees' rights have been changed and nine other employees' rights will be reviewed to comply with your recommendation. The University will review the status of four Admissions Office employees and one Registrar Office employee to determine appropriate access that will comply with your recommendation.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Control access procedures have been updated to ensure that system access is promptly deleted after employees are terminated. Employees are now granted the least amount of system access to adequately perform job duties. The Controller's office will review and provide guidance to other departments and assist the Internal Auditor in ensuring that University System Access procedures are in place, to ensure compliance with good internal control, and to comply with your recommendation.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647