THE UNIVERSITY *of* NORTH CAROLINA

GREENSBORO

Inspire. Change.

The Financial Report **2004-2005**

Table of Contents

THE UNIVERSITY *of* NORTH CAROLINA
GREENSBORO

Business Affairs

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The Chancellor and The Board of Trustees
of The University of North Carolina at Greensboro

I am pleased to present the University's Financial Report for the year ended June 30, 2005. The report is comprised of four sections: the audit opinion letter from the North Carolina Office of State Auditor; management's discussion and analysis of the three required financial statements; the financial statements; and the related footnote disclosures. The accompanying financial statements are presented in accordance with accounting principles generally prescribed by the Governmental Accounting Standards Board.

I would like to recognize the employees working within the Office of Accounting Services who prepared this financial report. A tremendous amount of time and effort was required of them in order to make this report possible.

Sincerely,

Philip H. Richman

Philip H. Richman
Vice Chancellor for Business Affairs

Introduction

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2005. This discussion, the preceding transmittal letter, the following financial statements, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, notes to the financial statements, and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements and notes to the financial statements.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASB Statements for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories.

Statement of Net Assets

The Statement of Net Assets is a "point of time" financial statement that presents the assets, liabilities, and net assets of the University. The purpose of this financial statement is to present to the readers of the University's Financial Report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Assets presents both the current and noncurrent portions of assets and liabilities. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. The Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets, net of related debt; unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These three categories of net assets are discussed further in the notes to the financial statements.

A condensed statement of net assets is reflected on the following page.

Condensed Statement of Net Assets

	6/30/05	6/30/04
Assets:		
Current assets	$ 90,890,197	$ 90,123,149
Noncurrent Capital assets, net of accumulated depreciation	303,127,462	273,581,669
Other noncurrent assets	204,444,426	138,479,312
Total Assets	598,462,085	502,184,130
Liabilities:		
Current Liabilities	24,027,585	23,666,428
Noncurrent Liabilities	137,931,594	90,314,312
Total Liabilities	161,959,179	113,980,740
Net Assets:		
Invested in capital assets, net of related debt	236,995,085	208,868,141
Restricted - nonexpendable	69,452,286	68,429,067
Restricted - expendable	71,136,290	56,989,468
Unrestricted	58,919,245	53,916,714
Total Net Assets	$ 436,502,906	$ 388,203,390

The total assets of the University increased by $96.3 million for the year ($.8 million increase for current assets and a $95.5 million increase for non current assets). This overall increase was attributable to increases of $45.7 million in Cash and cash equivalents, $29.5 million in Capital assets, net of accumulated depreciation, $13.8 million in Endowment investments, and $6.4 million in Restricted due from primary government. The increase in Cash and cash equivalents, Capital assets, and Restricted due from primary government is primarily the result of $29.5 million in borrowing by the Capital Facilities Foundation for the purpose of dormitory construction, the issuance of $18.9 million in general obligation bonds for various construction projects, and increased funding from the Statewide Higher Education Bonds for the completion of two new classroom buildings. All other asset categories, both current and non current, increased by $.9 million.

The total liabilities of the University increased by $48.0 million for the year ($.4 million for current liabilities and a $47.6 increase in non current liabilities). This overall increase was attributable to a $46.2 million increase in long-term liabilities, consisting of a $15.4 million increase in bonds payable due to the issuance of new General Obligation Revenue bonds in November 2004, a $29.5 million increase in Notes Payable from the funds borrowed by the Capital Facilities Foundation for the construction of a new dormitory, a $1.5 million increase in the Annuity and life income payable liability, and a $.2 million decrease in accrued vacation leave payable.

The combination of the increase in total assets of $96.3 million and the increase in total liabilities of $48.0 million yields an overall increase in total net assets of $48.3 million. This change consists of an increase in the category of invested in capital assets, net of related debt of $28.1 million, an increase in the category of nonexpendable net assets of $1.0 million, an increase in the category of restricted expendable net assets of $14.2 million, and an increase in the category of unrestricted net assets of $5.0 million. The increase in invested in capital assets, net of related debt category is a combination of increases in Construction in Progress from the nearly completed construction of two new classroom buildings and an electrical power substation, which were funded by the Statewide Higher Education bonds and increases in buildings and other structures from capital donations for the new Admissions and Welcome Center and the Nicholas A. Vacc Bell Tower. The increase in the nonexpendable net asset category is due to the increases in Endowment additions. The increase in restricted expendable net assets is due to increases in the market value of Endowment investments and general obligation revenue bond proceeds from the November 2004 issuance that has not been spent. The increase in the unrestricted net asset category is due to increases in tuition and fee revenue and sales and services from an increase in rates charged to students.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations are included as nonoperating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net Assets. Other revenues, expenses, gains, or losses include capital contributions and additions to the principal of permanent and term endowments.

A condensed statement of revenues, expenses, and changes in net assets is reflected below.

Condensed Statement of
Revenues, Expenses and Changes in Net Assets
For the Years Ended

	6/30/05	6/30/04
Operating revenues	$ 119,045,525	112,333,005
Operating expenses	243,459,901	233,683,187
Operating loss	(124,414,376)	(121,350,182)
Net nonoperating revenues	130,076,002	127,587,077
Income (Loss) before other revenues	5,661,626	6,236,895
Other revenues, expenses, gains, or losses	42,637,890	21,715,154
Total increase in net assets	48,299,516	27,952,049
Net assets - July 1, 2004	388,203,390	360,251,341
Net assets - June 30, 2005	$ 436,502,906	$ 388,203,390

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating revenues increased by $6.7 million (6.0%), whereas operating expenses increased by $9.8 million (4.2%), for a combined net increase in operating loss of $3.1 million. The largest increases within operating revenues were in net student tuition and fees and sales and services, which increased by $5.9 million and $1.1 million, respectively. The increase in net student tuition and fees was due to increases in student enrollment and in tuition and fee rates, but these increases were reduced by higher financial aid awards recorded as tuition discounts, which offsets student tuition and fees revenue. The increase in sales and services was due to increases in the rates charged to students and staff by the University's Auxiliary Services operations. Other sources of operating revenues declined by $.3 million (1.1%). The increase in operating expenses is primarily the result of an $8.1 million (5.7%) increase in salaries and benefits, a $2.7 million (6.7%) increase in services, a $1.1 million (14.8%) increase in depreciation, a $1.0 million (9.1%) increase in scholarships and fellowships, and a $.7 million (9.5%) increase in utilities. The increase in salaries and benefits is related to new positions and salary increases funded by increased enrollment and legislative salary increases. The increase in services and utilities is related to increased costs funded by increases in state appropriations discussed, later. The increase in depreciation is due to a full year of depreciation being recorded on the new Science Building for the first time and the Heating Plant Expansion and Northeast Quadrant Infrastructure becoming a part of the University's Infrastructure in Fiscal Year 2005. The increase in scholarships and fellowships is due to higher financial awards necessitated by increases in student tuition and fees.

- State appropriations increased by $9.1 million (9.2%) which was primarily attributable to enrollment change increases. Investment income decreased by $4.7 million (22.6%) due to performance in the overall broader markets not being as strong as the prior year. However, the total return on investment was still favorable at 10.7%. Noncapital grants declined by $1.4 million (14.6%) as part of an overall decline in grant operating and nonoperating revenue due to less grant activity, while noncapital gifts increased by $.7 million (24.6%) due to increased giving. Interest and fees on debt and other nonoperating expenses increased by $1.2 million (30.6%) and $.1 million (19.7%), respectively. These increases are due to increases in the University's long-term debt (previously discussed) and due to increases in the disposal of obsolete fixed assets. The various increases and decreases as a whole yield an overall increase of $2.5 million (2.0%) in net nonoperating revenues.

- Other revenues increased by $20.9 million (96.2%), primarily due to an increase of $16.0 million (90.7%) in funding by the state for construction activities via the statewide higher education bonds. The increase is due to the construction of the Hall for Humanities and Research Administration, the Studio Arts Center, and an Electrical Power Substation during the fiscal year all of which are funded by the statewide higher education bonds. Capital appropriations increased by $2.0 million, due to the state appropriation funding of the 2004 Capital Improvement Code. Capital gifts increased by $2.6 million, primarily due to the $1.6 million gift from Preservation North Carolina for the new Admissions and Welcome Center and a $.5 million gift for the Nicholas A. Vacc Belltower.

Statement of Cash Flows

The final statement presented by The University of North Carolina at Greensboro is the Statement of Cash Flows. This statement is divided into five parts and presents detailed information about the cash activity of the University during the year. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section displays the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section displays the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and displays the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A condensed statement of cash flows is reflected below.

Condensed Statement of Cash Flows
For the Years Ended

	6/30/05	6/30/04
Cash Provided (Used) by:		
Operating Activities	$ (116,792,263)	$ (106,103,133)
Noncapital Financing Activities	123,813,405	114,897,100
Capital and Related Financing Activities	35,208,122	(10,663,379)
Investing Activities	3,492,572	4,213,865
Net Change in Cash	45,721,836	2,344,453
Cash and Cash Equivalents - July 1, 2004	76,415,520	74,071,067
Cash and Cash Equivalents - June 30, 2005	$ 122,137,356	$ 76,415,520

Major sources of funds included in operating activities are student tuition and fees ($57.1 million), auxiliary sales and services ($24.9 million), and contracts and grants ($29.7 million). Major uses of funds included in operating activities are payments to employees and related fringe benefits ($150.5 million), payments to vendors / suppliers ($67 million), and payments for scholarships and fellowships ($11.5 million). Collectively, total sources of funds included in operating activities increased by 3.2% ($3.5 million), whereas total uses increased by 6.6% ($14.2 million).

The major source of funds included in noncapital financing activities is state appropriations ($108.1 million) which increased by 9.2% ($9.1 million) over the prior fiscal year, despite a required transfer of state appropriation ($.8 million) to a fund for Hurricane relief.

The major sources of funds included in capital and related financing activities are proceeds from capital debt ($70.6 million) and capital grants ($27.2 million), whereas the major uses are the acquisition and construction of capital assets ($35.6 million) and principal paid on capital debt ($25.0 million). Collectively, total sources of funds included in capital and related financing activities increased by $83.6 million, whereas total uses increased by $37.7 million. These substantial increases in sources of funds are due to the issuance of $18.4 million in general revenue bonds (for the renovation of the Gove Health Center, construction of a softball complex, construction of an exercise track, and renovations to the dining hall and two residence halls), the issuance of $22.2 million in University of North Carolina Pooled general revenue bonds (used to partially defease four revenue bonds), a bank loan in the form of a $29.5 million note payable (for the construction of a new dormitory by the Capital Facilities Foundation), and the associated issuance premiums for the general obligation revenue bonds. These substantial increases in the use of funds are due to the defeasement of $21.9 million of principal for four different revenue bonds and the construction of the Studio Arts Center, the Hall for Humanities and Research Administration, the Electrical Power Distribution Expansion, and the Softball Complex.

The major source of funds included in investing activities is proceeds from sales and maturities of investments ($38.2 million), whereas the major use is purchase of investments and related fees ($39.8 million). Collectively, total sources of funds included in investing activities decreased by 53.9% ($50.7 million), whereas total uses decreased by 55.7% ($50 million). In summary, there was less significant movement of invested funds than in the prior year.

Capital Asset and Debt Administration

During fiscal year 2004-05, the Northeast Quadrant Infrastructure, the Heating Plant Expansion, the Recreation Field Support Building, and the Tanger Flag Pole projects were all completed. The goal of the $7.1 million Northeast Quadrant Infrastructure project was to provide students, faculty, staff, and visitors, with a safe, attractive environment, while increasing the aesthetic, educational, and environmental value of the campus. The project which was completed in the spring of 2005 included pedestrian access, utility improvements, service access, the McIver Street / East Lake Drive realignment, environmental improvements, and communication projects. The Heating Plant Expansion was a $4.0 million project to place a new boiler and rework the infrastructure within the plant to accommodate the increased demand due to the additional square footage of building space being added to the campus.

Major projects included in construction in progress are as follows: $10.7 million for the Hall for Humanities and Research Administration, $8.9 million for the Studio Arts Center, $3.3 for the Electric Power Distribution Capacity Expansion and Upgrade, $2.2 million for the Softball Complex, $.7 million for the Gove Health Center Renovation and Addition, $.7 million for the Petty Science Building Comprehensive Renovation, and $.7 million for the Aycock Auditorium Renovation, and $2.0 million for other capitalized projects.

During fiscal year 2004-05 the University issued $22.2 million in University of North Carolina pooled general revenue bonds, Series 2005A, and defeased $2.9 million of outstanding Student Facility revenue bonds, Series 1997B, $9.4 million of outstanding Student Facility revenue bonds, Series 1997C, $4.7 million of outstanding Housing and Dining revenue bonds, Series 1997D, and $5.0 million of outstanding Housing and Dining revenue bonds, Series 2000G. The University used $23.1 million of the net bond proceeds (face value plus issuance premium) to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future payments on the defeased bonds. As the result of the defeasance of the four bond issues listed above, the University reduced its debt service requirements by $1.3 million over the next 21 years and obtained an economic gain, at net present value, of $.9 million. Also in fiscal year 2004-05 the University issued $18.9 million in self-liquidating general obligation revenue bonds. As stated earlier the bond proceeds are being used for the renovation of the Gove Health Center, the construction of a softball complex, the construction of an exercise track, and renovations to the dining hall and two residence halls.

The Capital Facilities Foundation, which is a new blended component unit of the University, secured a $29.5 million Note Payable from RBC Centura. The proceeds from this note payable will be used to construct a new campus dormitory with an underground parking garage. Construction is expected to be completed in time for student occupancy in the fall semester of 2006.

For additional information concerning Capital Assets and Debt Administration, see Notes 5 and 7 in the notes to the financial statements.

Economic Outlook

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2005-06 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate the current fiscal year will be very similar to the 2004-05 fiscal year and accordingly, will maintain a close watch over resources so that the University will be able to react to unknown internal and external issues. While the gulf coast hurricanes of August and September 2005 did not directly affect the state or the University, the direct effects on energy costs and the indirect effects on the national and state economy through a slowdown in economic activity, could impact the level of state support in the coming fiscal year.

The level of state support is one of the key factors influencing the University's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. In addition, there is a direct relationship between the level of state support and tuition increases, as declines in state support have resulted in increased tuition rates. State appropriations constituted approximately thirty-six percent of the University's total revenues for fiscal year 2004-05, down from thirty-seven percent of the University's total revenues for fiscal year 2003-04. The University expects state support for fiscal year 2005-06 to remain at current levels.

Since state support is not expected to increase, management will continue the University's ongoing efforts toward revenue diversification, cost containment, and operating efficiencies. Management will also continue to employ the University's long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict ultimate results, we believe that the University's overall financial condition is strong enough to weather most economic uncertainties. We believe that sufficient resources will be available to allow the University to continue its current level of excellent service to its students, the community, and governmental agencies.

STATE OF NORTH CAROLINA

Office of the State Auditor

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of The University of North Carolina at Greensboro, a constituent institution of the 16-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Greensboro Investment Fund, Incorporated, which represent 23 percent, 32 percent, and 6 percent, respectively, of the assets, net assets and revenues of the University; the financial statements of The UNCG Excellence Foundation, which represent 11 percent, 14 percent and 3 percent, respectively, of the assets, net assets and revenues of the University; the financial statements of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, which represent 1 percent, 1 percent, and .2 percent, respectively, of the assets, net assets, and revenues of the University; nor the financial statements of Capital Facilities Foundation, Inc., which represent 5 percent, .02 percent, and .03 percent, respectively, of the assets, net assets, and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 opinion.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 financial position of The University of North Carolina at Greensboro as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

October 21, 2005

ASSETS		
Current Assets		
Cash and cash equivalents	$	60,598,870
Restricted cash and cash equivalents		15,663,213
Short-term investments		541,803
Restricted short-term investments		7,042,796
Receivables, net (Note 4)		5,244,344
Inventories		389,223
Notes receivable, net (Note 4)		1,409,948
Total current assets		90,890,197
Noncurrent Assets		
Restricted cash and cash equivalents		45,875,273
Receivables, net (Note 4)		1,189,945
Restricted due from primary government		10,967,220
Endowment investments		137,839,991
Other long-term investments		3,993,081
Notes receivable, net (Note 4)		4,578,916
Capital assets - nondepreciable (Note 5)		71,325,061
Capital assets - depreciable, net (Note 5)		231,802,401
Total noncurrent assets		507,571,888
Total assets		598,462,085
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)		14,014,545
Due to primary government		8,458
Deposits payable		539,680
Deferred revenue		4,083,402
Interest payable		1,076,790
Long-term liabilities - current portion (Note 7)		4,304,710
Total current liabilities		24,027,585
Noncurrent Liabilities:		
Funds held for others		1,281,434
U. S. government grants refundable		5,800,712
Funds held in trust for pool participants		2,429,196
Long-term liabilities (Note 7)		128,420,252
Total noncurrent liabilities		137,931,594
Total liabilities		161,959,179
NET ASSETS		
Invested in capital assets, net of related debt		236,995,085
Restricted for		
Nonexpendable		
Scholarships and fellowships		35,723,358
Endowed professorships		14,528,433
Departmental uses		10,416,629
Loans		962,370
Other		7,821,496
Expendable		
Scholarships and fellowships		34,200,664
Research		13,849
Endowed professorships		13,070,416
Departmental uses		13,836,816
Loans		972,753
Capital projects		3,440,256
Debt service		568,906
Other		5,032,630
Unrestricted		58,919,245
Total net assets	$	436,502,906

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

REVENUES		
Operating Revenues		
Student tuition and fees, net (Note 9)	$	57,411,806
Federal grants and contracts		27,944,156
State and local grants and contracts		738,782
Nongovernmental grants and contracts		1,392,419
Sales and services, net (Note 9)		31,130,765
Interest earnings on loans		28,291
Other operating revenues		399,306
Total operating revenues		119,045,525
EXPENSES		
Operating Expenses:		
Salaries and benefits		149,350,233
Supplies and materials		22,948,060
Services		43,146,777
Scholarships and fellowships		11,538,652
Utilities		7,578,731
Depreciation		8,897,448
Total operating expenses		243,459,901
Operating loss		(124,414,376)
NONOPERATING REVENUES (EXPENSES)		
State appropriations		108,061,386
Noncapital grants		8,065,214
Noncapital gifts, net		3,626,635
Investment income (net of investment expense of $578,955)		15,984,380
Interest and fees on debt		(5,137,456)
Other nonoperating revenues (expenses)		(524,157)
Net nonoperating revenues		130,076,002
Income before other revenues, expenses, gains, or losses		5,661,626
Capital appropriations		2,330,800
Capital grants		33,649,110
Capital gifts		2,902,875
Additions to endowments		3,755,105
Increase in net assets		48,299,516
NET ASSETS		
Net Assets - July 1, 2004		388,203,390
Net Assets - June 30, 2005	$	436,502,906

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

Statement of
Cash Flows

Cash flows From Operating Activities		
Student tuition and fees, net	$	57,112,835
Auxiliary enterprise charges		24,865,602
Grants and contracts		29,725,268
Payments to employees and fringe benefits		(150,476,897)
Payments to vendors and suppliers		(66,987,448)
Payments for scholarships and fellowships		(11,538,652)
Loans issued		(1,806,670)
Collection of loans		1,562,567
Interest earned on loans		190,801
Other receipts (payments)		560,331
Net cash used by operating activities		(116,792,263)
Cash Flows from Noncapital Financing Activities		
State appropriations		108,061,386
Noncapital grants		8,881,967
Noncapital gifts		2,725,099
Additions to endowments		3,755,105
Related activity agency receipts		389,848
Net cash provided by noncapital financing activities		123,813,405
Cash Flows from Capital Financing and Related Financing Activities		
Proceeds from Capital Debt		70,566,435
State capital appropriations		2,330,800
Capital grants		27,212,555
Capital gifts		588,669
Acquisition and construction of capital assets		(35,602,238)
Principal paid on capital debt and leases		(24,919,868)
Interest and fees paid on capital debt and leases		(5,004,573)
Other receipts		36,342
Net used by capital financing and related financing activities		35,208,122
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments		38,177,346
Investment income		5,146,025
Purchase of investments and related fees		(39,830,799)
Net cash provided by investing activities		3,492,572
Net increase in cash and cash equivalents		45,721,836
Cash and cash equivalents - July 1, 2004		76,415,520
Cash and cash equivalents - June 30, 2005	$	122,137,356

	Year Ended June 30, 2005
Reconciliation of Operating Loss to Net Cash used by Operating Activities:	
Operating loss	$ (124,414,376)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	8,897,448
Allowances, write-offs, and amortizations	108,328
Changes in assets and liabilities:	
Receivables, net	(182,134)
Inventories	20,713
Accounts payable and accrued liabilities	(995,249)
Due to primary government	(6,801)
Deferred revenue	(235,909)
Compensated absences	60,382
Note principal repayments	1,762,005
Notes issued	(1,806,670)
Net cash used by operating activities	$ (116,792,263)
Reconciliation of Cash and Cash Equivalent Balances:	
Current assets:	
Cash and cash equivalents	$ 60,598,870
Restricted cash and cash equivalents	15,663,213
Noncurrent assets:	
Restricted cash and cash equivalents	45,875,273
Total cash and cash equivalents - June 30, 2005	$ 122,137,356
Noncash Investing, Capital, and Financing Activities:	
Donated fixed assets	$ (2,314,206)
Change in fair value of investments	(11,669,201)

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

Note 1 - Significant Accounting Policies

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Greensboro is a constituent institution of the 16-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. Although legally separate, The Human Environmental Sciences Foundation, Incorporated, The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, The University of North Carolina at Greensboro Investment Fund, Incorporated, and The Capital Facilities Foundation, Inc., component units of the University, are reported as if they were part of the University.

The Human Environmental Sciences Foundation, Incorporated is governed by a twenty-four member board consisting of two ex officio directors and twenty-two appointed directors. The Foundation's purpose is to aid and promote excellence in higher education, service and research, and the endowment of the School of Human Environmental Sciences at The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Weatherspoon Arts Foundation is governed by a twenty-seven member board consisting of two ex officio directors and twenty-five appointed directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation is governed by a thirty-four member board consisting of seven ex officio directors and twenty-seven appointed directors. The Foundation's purpose is to aid, support and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Incorporated is governed by a fifteen member board consisting of nine ex officio directors and six appointed directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is an external governmental investment pool. Because the directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Capital Facilities Foundation, Inc. is governed by an eight member board consisting of five ex officio directors and three appointed directors. The Foundation's purpose is to aid the construction of capital assets for the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation and the Investment Fund may be obtained from the Business Affairs Office, 254 Mossman Building, Greensboro, NC 27402, or by calling (336) 334-5200. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity (BTA) 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.

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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, limited partnerships, real estate investment trusts, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool, and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.

Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. Receivables – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, other universities, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest receivable from investments and student loans. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories – Inventories, consisting of expendable supplies, merchandise for resale, postage, and fuel oil are stated at cost using the last invoice cost.

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.

The University capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected 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 25 years for general infrastructure, 50 years for buildings, and 4 to 10 years for equipment.

The Weatherspoon Art Collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and therefore not depreciated.

I. Restricted Assets – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

J. Funds Held in Trust for Pool Participants – Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using proportionate-to-stated interest requirements method. The deferred losses on refundings are amortized over the life of the old debt using the straight-line method. Issuance costs are expensed.

L. 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. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method.

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.

M. Net Assets – The University's net assets are classified as follows:

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

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

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

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

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

N. 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.

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

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

P. 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 Motor Pool, Postal Operations, Printing Services, Telecommunications, and Telephone Services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2005, the University's deposit with the State Treasurer's Short-Term Investment Fund totaled $90,312,212. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The carrying amount of the University's deposits not with the State Treasurer was $31,750,287 and the bank balance was $32,305,774. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2005, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$	31,717,498
Uninsured and collateral held by bank		0
Uninsured and collateral held by pledging bank's trust department not in University's name		0
Total	$	31,717,498

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

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

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

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

Investments of The Human Environmental Sciences Foundation, The UNCG Excellence Foundation, and The University of North Carolina at Greensboro Investment Fund, Incorporated are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

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

External Investment Pool - The external investment pool sponsored by the University was established on July 1, 1992. The pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Endowment funds of the University, as well as those of The Human Environmental Sciences Foundation and The UNCG Excellence Foundation represent the pool's internal participants. Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. Fund ownership of the pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the pool. Thereafter, the pooled assets are valued monthly, and a new unit market value is determined. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The external investment pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the pool's portfolio among the asset classes, investment vehicles, and investment managers.

Wachovia Bank, N.A. is the custodian for the pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The annual financial report for the external investment pool may be obtained from the Business Affairs Office, 254 Mossman Building, Greensboro, NC 27402, or by calling (336) 334-5200.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the External Investment Pool. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The External Investment Pool Board of Directors does not have a formal investment policy that addresses interest rate risk.

External Investment Pool

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities	$	$	$	$	$
Mutual Bond Funds	24,756,192			24,756,192	
Money Market Funds	2,991,533	2,991,533			
		$ 2,991,533	$	$ 24,756,192	$
Other Securities					
Other Mutual Funds	45,182,473				
Investments in Real Estate	12,306,115				
Limited Partnerships	38,193,239				
Domestic Stocks	12,882,456				
Foreign Stocks	1,475,914				
Total External Investment Pool	$ 137,787,922				

Credit Risk: The External Investment Pool Board does not have a formal policy that addresses credit risk. As of June 30, 2005, the investments in the External Investment Pool were rated as follows:

	Fair Value	AAA Aaa
Mutual Bond Funds	24,756,192	24,756,192
Money Market Funds	2,991,533	2,991,533

Rating Agencies: Moody's Investors Services, Standard & Poor's

Concentration of Credit Risk: The External Investment Pool Board places no limit on the amount the Board may invest in any one issuer. No more than 5% of the long-term investment pool investments are with any one issuer.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the University's non-pooled investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The University does not have a formal investment policy that addresses interest rate risk.

Non-Pooled Investments

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities	$	$	$	$	$
U.S. Treasuries	636,208	303,831	273,513		58,864
U.S. Agencies	246,012	75,703	122,543	38,355	9,411
Motrgage Pass Throughs	175,764				175,764
Mutual Bond Funds	2,021,059		2,021,059		
Money Market Funds	2,913,671	2,913,671			
Domestic Corporate Bonds	404,542	16,202	206,177	168,522	13,641
Foreign Government Bonds	13,469				13,469
		$ 3,309,407	$ 2,623,292	$ 206,877	$ 271,149
Other Securities					
Other Mutual Funds	3,642,238				
Domestic Stocks	1,484,367				
Foreign Stocks	81,491				
Other: Real Estate	10,928				
Total Long-Term Investment Pool	$ 11,629,749				

Credit Risk: The University does not have a formal policy that addresses credit risk. As of June 30, 2005, the University's non-pooled investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	246,012	246,012				
Mortgage Pass Throughs	175,764	160,416				15,348
Mutual Bond Funds	2,021,059	2,021,059				
Money Market Funds	2,913,671	2,913,671				
Domestic Corporate Bonds	404,542	43,346	72,678	278,763	9,755	
Foreign Government Bonds	13,469			13,469		

Rating Agencies: Moody's Investors Services, Standard & Poor's

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. No more than 5% of the University's non-pooled investments are with any one issuer.

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds and the endowment funds of its affiliated entities is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's pooled endowment funds are equal to 4.25 percent of the average market value of the Investment Pool at December 31 for the past three years. To the extent that the current year earnings do not meet the payout requirements, the University uses accumulated realized appreciation to fund the difference. At June 30, 2005, net appreciation of $31,993,420 was available to be spent, of which $29,256,987 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 338,660	$ 267,484	$ 71,176
Accounts	1,887,340		1,887,340
Intergovernmental	1,268,424		1,268,424
Pledges	995,094		995,094
Investment Earnings	215,638		215,638
Interest on Loans	245,082		245,082
Other	561,590		561,590
Total Current Receivables	$ 5,511,828	$ 267,484	$ 5,244,344
Noncurrent Receivables:			
Pledges	$ 1,189,945	$	$ 1,189,945
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,149,295	$ 76,807	$ 1,072,488
Institutional Student Loan Programs	392,359	54,899	337,460
Total Notes Receivable - Current	$ 1,541,654	$ 131,706	$ 1,409,948
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 4,941,006	$ 362,090	$ 4,578,916
Total Notes Receivable - Noncurrent	$ 4,941,006	$ 362,090	$ 4,578,916

Note 5 - Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	$ 18,178,767	$	$ 2,268,836	$	$ 20,447,603
Art, Literature, and Artifacts	20,011,099		199,874	(16,500)	20,194,473
Construction in Progress	12,144,439	(11,442,304)	29,980,850		30,682,985
Total Capital Assets, Nondepreciable	50,334,305	(11,442,304)	32,449,560	(16,500)	71,325,061
Capital Assets, Depreciable:					
Buildings	232,771,222	4,272,094	2,706,978	(889,272)	238,861,022
Machinery and Equipment	25,457,983		3,256,463	(944,690)	27,769,756
General Infrastructure	55,287,399	7,170,210	590,739		63,048,348
Total Capital Assets, Depreciable	313,516,604	11,442,304	6,554,180	(1,833,962)	329,679,126
Less Accumulated Depreciation/Amortization for:					
Buildings	(62,946,205)		(4,372,051)	389,369	(66,928,887)
Machinery and Equipment	(17,015,065)		(2,279,738)	900,594	(18,394,209)
General Infrastructure	(10,307,970)		(2,245,659)		(12,553,629)
Total Accumulated Depreciation	(90,269,240)	0	(8,897,448)	1,289,963	(97,876,725)
Total Capital Assets, Depreciable, Net	223,247,364	11,442,304	(2,343,268)	(543,999)	231,802,401
Capital Assets, Net	$ 273,581,669	$ 0	$ 30,106,292	$ (560,499)	$ 303,127,462

Note 6 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 7,212,619
Accrued Payroll	4,308,911
Contract Retainage	1,613,843
Intergovernmental Payables	199,028
Other	680,144
Total Accounts Payable and Accrued Liabilities	$ 14,014,545

Note 7 - Long-Term Liabilities

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Bonds Payable	$ 75,530,000	$ 40,585,000	$ (25,170,000)	$ 90,945,000	$ 3,965,000
Add/Deduct Premium/Discount	(176,202)	1,731,671	113,343	1,668,812	
Deduct Deferred Charge on Refunding	(153,672)	(1,250,236)	136,789	(1,267,119)	
Total Bonds Payable	75,200,126	41,066,435	(24,919,868)	91,346,693	3,965,000
Notes Payable		29,500,000		29,500,000	
Compensated Absences	8,270,656	5,108,542	(5,048,160)	8,331,038	339,710
Annuity and Life Income Payable	2,091,181	1,456,050		3,547,231	
Total Long-Term Liabilities	$ 85,561,963	$ 77,131,027	$ (29,968,028)	$ 132,724,962	$ 4,304,710

B. 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 06/30/2005	Principal Outstanding 06/30/2005
Housing and Dining System						
Housing and Dining System Revenue Bonds (1997)	D	5.10%	4/1/07	6,000,000	$ 5,650,000	$ 350,000
Housing and Dining System Revenue Bonds (1997)	E	4.00%-4.60%	4/1/07	7,290,000	5,800,000	1,490,000
Housing and Dining System Revenue Bonds (1997)	F	4.60%-5.10%	4/1/16	8,750,000	2,760,000	5,990,000
Housing and Dining System Revenue Bonds (2000)	G	5.75%	4/1/10	6,425,000	5,545,000	880,000
Total Housing and Dining				28,465,000	19,755,000	8,710,000
Student Facilities System						
Student Facilities Revenue Bonds (1997)	B	5.00%	4/1/07	3,755,000	3,535,000	220,000
Student Facilities Revenue Bonds (1997)	C	4.80%	4/1/07	12,200,000	11,470,000	730,000
Total Student Facilities System				15,955,000	15,005,000	950,000
General Revenue Bonds (2001)	A	4.35%-5.00%	4/1/26	19,870,000	1,880,000	17,990,000
General Revenue Bonds (2001)	B	3.50%-5.38%	4/1/26	16,445,000	1,980,000	14,465,000
The University of North Carolina System Pool Revenue Bonds						
General Revenue Bonds (2002A)	(A)	4.00%-5.38%	4/1/27	8,835,000	590,000	8,245,000
General Revenue Bonds (2004C)	(B)	3.00%-5.00%	4/1/29	18,350,000		18,350,000
General Revenue Bonds (2005A)	(C)	3.00%-5.25%	4/1/26	22,235,000		22,235,000
Total The University of North Carolina System Pool Revenue Bonds				49,420,000	590,000	48,830,000
Total Bonds Payable (principal only)				$ 130,155,000	$ 39,210,000	90,945,000
Less: Unamortized Loss on Refunding						(1,267,119)
Less: Unamortized Discount						(209,136)
Plus: Unamortized Premium						1,877,948
Total Bonds Payable						$ 91,346,693

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

(B) The University of North Carolina System Pool Revenue Bonds, Series 2004C

(C) The University of North Carolina System Pool Revenue Bonds, Series 2005A

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2005, are as follows:

	Annual Requirements			
	Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2006	$ 3,965,000	$ 4,307,161	$	$ 846,945
2007	4,120,000	4,176,634		846,945
2008	3,515,000	3,996,363		846,945
2009	3,660,000	3,856,184		846,945
2010	3,815,000	3,704,337		846,945
2011-2015	21,945,000	15,789,614		4,234,725
2016-2020	21,680,000	10,182,726		4,234,725
2021-2025	20,550,000	4,848,150		4,234,725
2026-2030	7,695,000	763,575		4,234,725
2031-2035			29,500,000	4,132,628
Total Requirements	$ 90,945,000	$ 51,624,744	$ 29,500,000	$ 25,306,253

Interest on the variable rate Notes Payable is calculated at 2.87% at June 30, 2005.
The interest rate on the Note Payable for the Capital Facilities Foundation is set on the first day of the month and can be reset on the first day of the following month. The interest rate is calculated at 81% of the sum of (1) LIBOR Base Rate and (2) 35 basis points (.35%), calculated on the basis of a 365 day year for the actual number of days elapsed but at no time greater than a total interest rate of 9.454%.

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

Student Facilities System: On April 14, 2005 the University defeased $2,910,000 of outstanding 1997 Student Facility Revenue Bonds, Series B (original issue amount $3,755,000). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by $163,495 over the next 18 years and obtained an economic gain of $116,862. At June 30, 2005, the outstanding balance of the defeased 1997 Student Facility Revenue Bonds was $2,910,000.

Student Facilities System: On April 14, 2005 the University defeased $9,360,000 of outstanding 1997 Student Facility Revenue Bonds, Series C (original issue amount $12,200,000). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by $382,471 over the next 18 years and obtained an economic gain of $271,704. At June 30, 2005, the outstanding balance of the defeased 1997 Student Facility Revenue Bonds was $9,360,000.

Housing and Dining System: On April 14, 2005 the University defeased $4,650,000 of outstanding 1997 Housing and Dining Revenue Bonds, Series D (original issue amount $6,000,000). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by $216,790 over the next 18 years and obtained an economic gain of $152,633. At June 30, 2005, the outstanding balance of the defeased 1997 Housing and Dining Revenue Bonds was $4,650,000.

Housing and Dining System: On April 14, 2005 the University defeased $4,980,000 of outstanding 2000 Housing and Dining Revenue Bonds, Series G (original issue amount $6,425,000). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by $533,097 over the next 21 years and obtained an economic gain of $355,562. At June 30, 2005, the outstanding balance of the defeased 2000 Housing and Dining Revenue Bonds was $4,980,000.

Housing and Dining System*:* In 1997, the University defeased $8,045,000 of outstanding Housing and Dining System Revenue Bonds, Series B (1991). An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2005, the outstanding balance of the defeased Housing and Dining System Revenue Bonds was $5,805,000.

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 06/30/2005	Principal Outstanding 06/30/2005
Construction of New Dormitory	RBC Centura	2.87% - 9.45%	5/17/35	$ 29,500,000	$ 0	$ 29,500,000
Total Notes Payable				$ 29,500,000	$ 0	$ 29,500,000

The University plans to refinance the notes maturing on May 17, 2035 with General Revenue Bonds to be issued in late 2007.

Note 8 - Lease Obligations

Operating Lease Obligations – Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 455,787
2007	216,589
2008	36,776
2009	10,404
2010	10,404
2011-2015	16,473
Total Minimum Lease Payments	$ 746,433

Rental expense for all operating leases during the year was $681,518.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Revenues Pledged as Security for Debt	
Operating Revenues:							
Student Tuition and Fees	$ 64,959,771	$ (121,900)	$ 7,584,513	$ 85,352	$ 57,411,806	$ 3,551,920	(B)
Sales and Services:							
Sales and Services of Auxiliary Enterprises:							
Residential Life	$ 11,571,161	$ 365,966	$ 1,310,180	$ 14,196	$ 9,880,819		(A)
Dining	9,558,284		1,060,841	11,955	8,485,488		(A)
Student Union Services	1,186,861	62,957			1,123,904		
Health, Physical Education, and Recreation Services	764,338	4,187			760,151		
Parking	3,526,866	101,873		(9,904)	3,434,897		
Athletic	702,102	60,952			641,150		
Other	6,497,390	6,327,206			170,184		
Sales and Services of Education and Related Activities	7,066,636	432,464			6,634,172		
Total Sales and Services	$ 40,873,638	$ 7,355,605	$ 2,371,021	$ 16,247	$ 31,130,765		

Revenue Bonds Secured by Pledged Revenues:

(A) Housing and Student Center System

(B) Student Facilities System

NOTE 10 - 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	$ 77,554,041	$ 3,972,576	$ 5,436,967	$ 51,100	$ 0	$ 0	$ 87,014,684
Research	7,469,798	653,088	3,345,125	211,500	1,680	0	11,681,191
Public Service	5,672,489	391,622	6,442,299	477,404	4,001	0	12,987,815
Academic Support	15,106,118	5,265,232	5,805,499	195,602	601	0	26,373,052
Student Services	7,566,113	1,193,820	2,740,619	5,700	29	0	11,506,281
Institutional Support	14,715,907	353,183	6,653,891	740	1,199	0	21,724,920
Operations and Maintenance of Plant	10,269,304	9,412,517	1,082,720	0	5,585,375	0	26,349,916
Student Financial Aid	0	0	(39,678)	10,596,606	0	0	10,556,928
Auxiliary Enterprises	10,996,463	1,706,022	11,679,335	0	1,985,846	0	26,367,666
Depreciation	0	0	0	0	0	8,897,448	8,897,448
Total Operating Expenses	$ 149,350,233	$ 22,948,060	$ 43,146,777	$ 11,538,652	$ 7,578,731	$ 8,897,448	$ 243,459,901

Note 11 - 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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the University had a total payroll of $125,690,104, of which $59,632,402 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $3,577,944 and $1,294,023, respectively. The University made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $1,294,023, $131,280, and $0, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2005, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the year ended June 30, 2005, the University had a total payroll of $125,690,104, of which $47,440,358 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were $2,846,421 and $3,244,920, 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 $232,838 for the year ended June 30, 2005.

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, 2005, were $76,628. The voluntary contributions by employees amounted to $825,384 for the year ended June 30, 2005.

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 $2,038,369 for the year ended June 30, 2005.

Note 12 - Other Postemployment Benefits

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The University participates in State-administered programs that provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2005, the University's total contribution to the Plan was $3,426,328. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.*

B. Long-Term Disability - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2005, the University's total contribution to the DIPNC was $476,474. 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 13 - Risk Management

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

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $500 per occurrence deductible. Extended coverage has been purchased for all residence halls (buildings only) and the West Entranceway. Extended coverage for buildings and contents has been purchased for the following buildings: Chemical Storage Facility, the Baseball Complex, the Science Building, the Graphics and Printing Services Building, and the Elliott University Center. Vandalism and malicious mischief insurance (VMM) has been purchased for the Elliott University Center and the West Entranceway. The University must fund the cost of this insurance. Both the Extended coverage and VMM are subject to a $500 per event deductible and the cost is based on the declared value of each structure.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are $500,000 per claim and $5,000,000 per occurrence and out-of-State are $1,000,000 per claim and $5,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence with a $50,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages are: postal surety bond (coverage limit $30,000); athletic staff travel (coverage limit $10,000, $5.0 million aggregate, $3,000 deductible); selective travel and club sports ($10,000 accidental death and dismemberment, $500,000 aggregate); physicians professional medical liability ($1.0 million per person, $3.0 million total); non-professional medical liability ($1.0 million per person, $3.0 million total); fine art (up to $13.1 million per event, $1,000 deductible for the permanent collection, no deductible for loaned items); musical instruments ($2.85 million cash replacement value with no deductible); robbery and safe burglary ($500,000 per event, $1,000 deductible); boiler and machinery ($5,000 occurrence aggregate, $500 deductible); "all-risk" for equipment covering all perils except fire (replacement cost, $1,000 deductible per event).

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

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

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. There were no employer contributions required 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 14 - 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 $62,419,138 at June 30, 2005.

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. University Improvement General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $2.5 billion of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization of $66,174,115 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

D. 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
Pledges to The UNCG Excellence Foundation Endowment Fund	$ 1,771,884
Pledges to The Human Environmental Sciences Foundation Endowment Fund	56,193
Pledges to The UNCG Endowment Fund	524,124

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

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Chancellor

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Provost & Vice Chancellor for Academic Affairs

Philip H. Richman
Vice Chancellor for Business Affairs

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Patricia W. Stewart
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Shannon B. Clegg
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Office of the Controller 2004-2005

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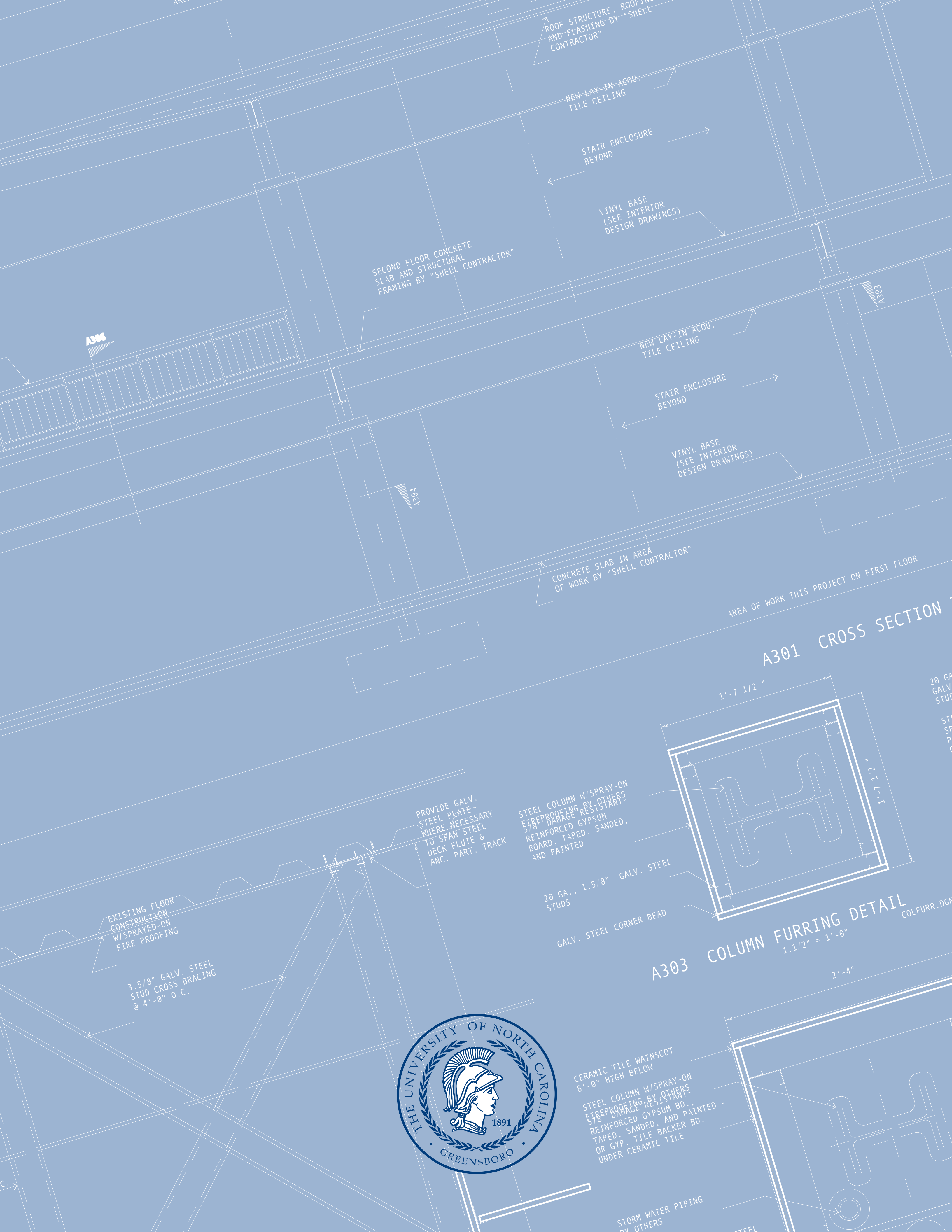

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