THE UNIVERSITY *of* NORTH CAROLINA
GREENSBORO

The Financial Report 2007 - 2008

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Cover photo: Aycock Auditorium

Letter From the Vice Chancellor for Business Affairs

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, 2008. The report is comprised of three sections: 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.

Accountability to our stakeholders is possible only by campus-wide adherence to sound fiscal policies and procedures, a dedicated and talented fiscal staff, and a strong ethical culture. I also recognize the employees working within the Office of Accounting Services who prepared this financial report. A tremendous amount of time, effort and skill was required in order to make this report possible.

Sincerely,

Reade Taylor
Vice Chancellor for Business Affairs

The University of North Carolina at Greensboro
Management's Discussion and Analysis

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, 2008. 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 in the following table.

Condensed Statement of Net Assets

		6/30/08		6/30/07
Assets:				
Current assets	$	112,916,832	$	105,913,614
Noncurrent Capital assets, net of accumulated depreciation		404,975,940		373,471,898
Other noncurrent assets		217,809,549		240,027,929
Total Assets		735,702,321		719,413,441
Liabilities:				
Current Liabilities		53,368,179		55,222,531
Noncurrent Liabilities		109,025,019		110,668,170
Total Liabilities		162,393,198		165,890,701
Net Assets:				
Invested in capital assets, net of related debt		297,103,253		260,490,279
Restricted - nonexpendable		93,882,849		86,235,345
Restricted - expendable		108,070,344		138,528,375
Unrestricted		74,252,677		68,268,741
Total Net Assets	$	573,309,123	$	553,522,740

The total assets of the University increased by $16.3 million for the year ($7.0 million increase for current assets and a $9.3 million increase for noncurrent assets). This overall increase was attributable to increases of $31.5 million in Capital assets, net of accumulated depreciation, and $7.9 million in Cash and cash equivalents, and decreases of $22.9 million in Restricted due from primary government and $0.9 million in Endowment investments. The increase in Capital assets, net of accumulated depreciation, is the direct result of the completion and capitalization of several major building renovations during the fiscal year. These major building renovations include Aycock Auditorium, Petty Science Building, Brown Classroom Building, Alumni House, McNutt Building, and the Oakland Avenue Parking Deck Office Addition. The increase in Cash and cash equivalents is the result of increases in state carry forward funds and sales and services revenues due to growth in the student population. The decrease in Restricted due from primary government is directly attributable to the completion of several major construction projects during the fiscal year funded by the statewide higher education bonds and by the statewide certificates of participation. The decrease in Endowment investments is the result of decreases due to declining investment values, and the distribution and spending of endowment income, which was partially offset by increases in endowment giving through the Students First Capital Campaign. All other asset categories, both current and noncurrent, increased by $0.7 million.

The total liabilities of the University decreased by $3.5 million for the year ($1.9 million decrease for current liabilities and a $1.6 million decrease in noncurrent liabilities). This overall decrease in total liabilities consists of a $3.5 million decrease in Bonds payable, a $2.7 million decrease in Accounts payable and accrued liabilities, a $1.3 million increase in Compensated absences, a $0.6 million increase in Unearned revenue, a $0.6 million increase in the Annuity and life income payable liability and an increase of $0.2 million in all other liability categories, both current and noncurrent. The University did not issue any new debt in Fiscal Year 2008, thus the decrease in Bonds payable is attributable to payments of principal on and amortizations related to outstanding University debt. The decrease in Accounts payable and accrued liabilities is due to less construction activity at June 30, 2008. The increase in Compensated absences is due to higher salary rates and continued growth in the number of University employees. The increase in Unearned revenue is attributable to the rise in unearned activity related to contracts and grants. The increase in the Annuity and life income is due to new Annuity and life income funds being established by new donors.

The combination of the increase in total assets of $16.3 million and the decrease in total liabilities of $3.5 million yields an overall increase in total net assets of $19.8 million. This change consists of an increase in the category of invested in capital assets, net of related debt of $36.6 million, an increase in the category of non-expendable net assets of $7.7 million, a decrease in the category of Restricted expendable net assets of $30.5 million, and an increase in the category of Unrestricted net assets of $6.0 million. The increase in the invested in capital assets, net of related debt is due to the capitalization of several major building renovation projects completed this fiscal year. The increase in the nonexpendable net asset category is primarily due to increases in Additions to permanent endowments. The decrease in Restricted expendable net assets is due to decreases in Investment income and Noncapital gifts, and from a significant decrease in the Restricted due from primary government associated with completion of construction projects financed by the statewide higher education bonds. The increase in the unrestricted net asset category is due to increases in tuition and fee revenue and sales and services resulting from an increase in the number of students enrolled at the University.

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 in the following table.

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

	6/30/08	6/30/07
Operating revenues		
Student tuition and fees, net	$ 69,537,463	67,543,536
Grants and contracts	31,888,251	32,138,286
Sales and services, net	39,194,859	37,058,811
Interest earnings on loans	7,691	186,765
Other operating revenues	682,009	140,069
Total operating revenues	141,310,273	137,067,467
Operating expenses		
Salaries and benefits	203,172,760	178,827,109
Supplies and materials	23,579,672	33,072,637
Services	51,550,184	50,276,750
Scholarships and fellowships	14,030,475	13,527,436
Utilities	9,569,022	8,577,959
Depreciation	12,296,692	11,434,332
Total operating expenses	314,198,805	295,716,223
Operating loss	(172,888,532)	(158,648,756)
Nonoperating revenues (expenses)		
State appropriations	156,611,887	139,732,517
Noncapital grants and gifts	19,743,662	17,253,694
Investment income (net of investment expense)	2,647,956	32,046,142
Interest and fees on debt	(5,323,242)	(4,390,609)
Other nonoperating expenses	(922,608)	(124,745)
Net nonoperating revenues	172,757,655	184,516,999
Income (loss) before other revenues	(130,877)	25,868,243
Other revenues		
Capital appropriations	5,716,100	10,749,100
Capital grants and gifts	6,536,590	47,025,933
Total other revenues	12,252,690	57,775,033
Income before additions to endowments	12,121,813	83,643,276
Additions to permanent endowments	7,664,570	6,448,411
Increase in net assets	19,786,383	90,091,687
Net assets - July 1, 2007	553,522,740	463,431,053
Net assets - June 30, 2008	$ 573,309,123	$ 553,522,740

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets at the end of the year and a decrease of $50.1 million (12.8%) in total revenues. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating revenues increased by $4.3 million (3.1%), whereas operating expenses increased by $18.5 million (6.3%), for a combined net increase in operating loss of $14.2 million. The largest increases within operating revenues were in sales and services and student tuition and fees, which increased by $2.2 million and $2.0 million, respectively. 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. The increase in net student tuition and fees was due to increases in student enrollment and in student fee rates, but these increases were partially reduced by higher financial aid awards recorded as tuition discounts, which offsets student tuition and fees revenue. Other sources of operating revenues increased by $0.1 million (2.7%). The increase in operating expenses is the result of a $24.3 million (13.6%) increase in salaries and benefits, a $9.5 million (28.7%) decrease in supplies and materials, a $1.3 million (2.5%) increase in services, a $1.0 million (11.6%) increase in utilities, a $0.9 million (7.5%) increase in depreciation, and a $0.5 million (3.7%) increase in scholarships and fellowships. The increase in salaries and benefits is related to new positions and salary increases funded by increased enrollment and legislative salary increases. The decrease in supplies and materials is related to reduced funding and activity related to repair and renovation projects that are not capitalized. The increase of services is related to increased costs funded by increases in state appropriations, discussed later. The increase in utilities is due to higher energy costs experienced throughout the fiscal year and from buildings that underwent major renovations being brought back on line during the fiscal year. The increase in depreciation is due to a half year of depreciation being recorded on newly capitalized major building renovations, which include the Aycock Auditorium, Petty Science Building, Brown Classroom Building, Alumni House, McNutt Building, and the Oakland Avenue Parking Deck Office Addition. The increase in scholarships and fellowships is due to increases in Graduate Assistantships funded by the President's Advisory Council on Efficiency and Effectiveness initiative.

- State appropriations increased by $16.9 million (12.1%) which was primarily attributable to enrollment change increases. Investment Income decreased by $29.4 million (91.7%) due to performance of the overall markets being weaker than the prior year. The total return on the University's external investment pool declined to a loss of 0.2% for the current fiscal year compared to a gain of 18.7% for the prior fiscal year. Noncapital grants increased by $6.5 million (73.1%) due to increases in grant activity and new funding, from the Department of Public Instruction, for the UNCG iSchool Learn & Earn Online program. Noncapital gifts decreased by $4.1 million (48.9%), due to decreases in giving compared to the prior year. Interest and fees on debt increased by $0.9 million (21.2%) because interest on the Capital Facilities Foundation, Inc. note payable is no longer capitalized since the Spring Garden Apartments project was completed in the prior year. The caption Other nonoperating revenues (expenses) consists of the net difference between surplus property sales (a revenue) and the loss on the disposal of capitalized assets. Surplus property sales of $53,212 represent a $23,348 (78.1%) increase over the prior year. The loss on the disposal of capitalized assets was $975,820 which represented an increase of $821,212 from the prior year. The large increase in disposal of capitalized assets is related to the removal of the remaining book value for buildings that underwent major renovations before the capitalization of the major renovation was recorded as a new capital asset. The increase in these various categories as a whole yield an overall decrease of $11.8 million (6.4%) in net nonoperating revenues.

- Other revenues decreased by $44.3 million (69.0%), primarily due to decreases of $40.6 million (86.4%) in Capital grants and $5.0 million (46.8%) in Capital appropriations, both due to completion of major renovation construction activities that included the Aycock Auditorium, Petty Science Building, Brown Classroom Building, Alumni House, and the McNutt Building, which were funded by the statewide higher education bonds and statewide certificates of participation. Additions to endowments increased by $1.2 million (18.9%) due to increased giving related to the Students First Capital Campaign. Capital gifts of $120,900 ($0.1 million) were received during the fiscal year. These gifts included a donation for the Belk Spartan Sculpture and assets given to the Department of Music and the Department of Consumer Apparel and Retail Studies.

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 in the following table.

Condensed Statement of Cash Flows
For the Years Ended

	6/30/08	6/30/07
Cash Provided (Used) by:		
Operating Activities	$ (158,710,263)	$ (150,142,105)
Noncapital Financing Activities	184,953,454	163,091,095
Capital and Related Financing Activities	(22,929,279)	(3,398,851)
Investing Activities	4,633,784	2,847,148
Net Change in Cash	7,947,696	12,397,287
Cash and Cash Equivalents - July 1, 2007	105,686,418	93,289,131
Cash and Cash Equivalents - June 30, 2008	$ 113,634,114	$ 105,686,418

Major sources of funds included in operating activities are student tuition and fees ($69.0 million), contracts and grants ($33.4 million), auxiliary sales and services ($30.1 million), and sales and services of educational activities ($9.1 million). Major uses of funds included in operating activities are payments to employees and related fringe benefits ($200.3 million), payments to vendors and suppliers ($86.0 million), and payments for scholarships and fellowships ($14.0 million). Collectively, total sources of funds included in operating activities increased by 3.9% ($5.4 million), whereas total uses increased by 4.8% ($14.0 million).

The major source of funds included in noncapital financing activities is state appropriations ($156.6 million) which increased by 12.1% ($16.9 million) over the prior fiscal year. This increase is the major source of funds for financing the increase in operating activity uses noted in the preceding paragraph.

The major sources of funds included in capital and related financing activities are proceeds from capital grants ($29.3 million) and state capital appropriations ($5.7 million), whereas the major uses are the acquisition and construction of capital assets ($48.9 million), interest and fees paid on capital debt ($5.3 million), and principal paid on capital debt ($3.8 million). Collectively, total sources of funds included in capital and related financing activities decreased by $4.1 million, whereas total uses increased by $15.4 million. The significant increase in total uses is from the expenditure of capital grants and state capital appropriations, during the fiscal year, on major building renovation projects which include Aycock Auditorium, Petty Science Building, Brown Classroom Building, Alumni House, McNutt Building, and the Oakland Avenue Parking Deck Office Addition.

The major source of funds included in investing activities is proceeds from sales and maturities of investments ($122.7 million), whereas the major use is purchase of investments and related fees ($126.2 million). Collectively, total sources of funds included in investing activities increased by $69.8 million, whereas total uses increased by $68 million.

Capital Asset and Debt Administration

It is the University's intention to issue new bonds by April 30, 2009 for the purpose of acquiring the Spring Garden Apartments from the Capital Facilities Foundation, Inc., which is a blended component unit of the University, and retire the associated $29.5 million note payable. During the next fiscal year, the University will consider the possibility of refunding and advance refunding one or more outstanding bond issues.

During fiscal year 2007-08, the Aycock Auditorium, Petty Science Building, Brown Classroom Building, Alumni House, and the McNutt Building major renovation projects were all completed. The Aycock Auditorium is a newly renovated 2,200 seat auditorium with new seating, better sight lines, and complete upgrades to all plumbing, HVAC, and electrical and sound systems. The Petty Building is home for the Departments of Physics and Astronomy and Mathematics, Statistics, and Computer Science with renovated classrooms, computer labs, and office space, with additional office space for the School of Nursing. The Brown Classroom Building has been renovated to provide additional general classroom and office spaces. The Alumni House has been completely refurbished to provide space for the professional offices for Alumni Affairs, Advancement Services, and University Advancement. The McNutt Building was completed renovated and provided with a complete modernization of its electrical and mechanical systems and other necessary building code upgrades to accommodate the Information Technology Services data center and staff.

Major projects included in construction in progress are as follows: $3.1 million for the complete renovation of the Forney Classroom Building, $1.9 million for the new Academic Classroom and Office Building advance planning, $1.0 million for Fire and Sprinkler System upgrades, $0.7 million for Residence Hall Renovations, $0.6 million for Roof Replacements, $0.5 million for Oakland Avenue Parking Deck Addition, $0.4 million for other various campus projects, and $0.3 million for the Elliott University Center West Side Landscaping.

The University did not acquire or issue any new debt in fiscal year 2007-08.

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

Economic Outlook

The current financial position of the University is strong, but management must constantly monitor the overall economic situation regionally, statewide, and worldwide for its potential impact on business operations. The current crises in the United States financial and debt markets, continued increases in energy costs, and the constant threat of major economic disruptions due to hurricanes in the Eastern United States, could potentially have a negative impact on the State's projected revenues during the coming fiscal year. Therefore there is a strong possibility that despite increases in state appropriation funding due to enrollment growth, cuts in state funding will occur in fiscal year 2008-09.

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. State appropriations constituted approximately forty-six percent of the University's total revenues for fiscal year 2007-08, up from thirty-six percent of the University's total revenues for fiscal year 2006-07.

The University expects state support to increase in 2008-09 due to funding for increasing enrollments and legislative salary increases, but management recognizes that the state's and nation's weakening economies may result in reductions in state support during the fiscal year. Therefore 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 investment market volatility.

It is not possible to predict ultimate results, especially with rapid changes in the United States economy, but the University's overall financial condition is strong enough to weather most economic uncertainties. This financial strength comes from the increasing demand for the University's core products of education and research as evidenced by record enrollments being achieved each year for the past several years. Management believes that despite the challenges enumerated above, the University has sufficient resources available to allow it to continue its current level of excellent service to students, the community, and governmental agencies and to also allow extraordinary people to do extraordinary things.

STATE OF NORTH CAROLINA

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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 multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, 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 25 percent, 32 percent, and 0 percent, respectively, of the assets, net assets and revenues of the University; the financial statements of the UNCG Excellence Foundation, Inc., which represent 12 percent, 15 percent and 0 percent, respectively, of the assets, net assets and revenues of the University; or the financial statements of the Capital Facilities Foundation, Inc., which represent 4 percent, 0 percent and 1 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.

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, 2008, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control over financial reporting and on compliance and other matters has been issued in the financial statement audit report for The University of North Carolina at Greensboro published by the Office of the State Auditor.

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

Beth A. Wood, CPA
State Auditor

March 4, 2009

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 78,752,407
Restricted cash and cash equivalents	16,988,451
Short-term investments	824,208
Restricted short-term investments	6,719,560
Receivables, net (Note 4)	8,294,551
Inventories	479,468
Notes receivable, net (Note 4)	858,187
Total current assets	112,916,832
Noncurrent Assets:	
Restricted cash and cash equivalents	17,893,256
Receivables (Note 4)	1,605,537
Restricted due from primary government	2,767,644
Endowment investments	184,503,176
Other investments	5,088,996
Notes receivable, net (Note 4)	5,950,940
Capital assets - nondepreciable (Note 5)	50,404,307
Capital assets - depreciable, net (Note 5)	354,571,633
Total noncurrent assets	622,785,489
Total assets	735,702,321
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities (Note 6)	12,972,836
Due to primary government	24,641
Deposits payable	374,970
Funds held for others	22,121
Unearned revenue	5,007,518
Interest payable	1,068,548
Long-term liabilities - current portion (Note 7)	33,897,545
Total current liabilities	53,368,179
Noncurrent Liabilities:	
Funds held for others	875,287
U. S. government grants refundable	5,084,360
Funds held in trust for pool participants	3,536,133
Long-term liabilities (Note 7)	99,529,239
Total noncurrent liabilities	109,025,019
Total liabilities	162,393,198
NET ASSETS	
Invested in capital assets, net of related debt	297,103,253
Restricted For:	
Nonexpendable:	
Scholarships and fellowships	51,437,784
Endowed professorships	13,949,961
Departmental uses	19,275,079
Loans	1,062,370
Art	1,505,743
Other	6,651,912
Expendable:	
Scholarships and fellowships	48,750,694
Research	13,446
Endowed professorships	14,233,302
Departmental uses	24,828,380
Loans	2,340,081
Capital projects	11,849,166
Debt service	309,096
Art	1,072,622
Other	4,673,557
Unrestricted	74,252,677
Total net assets	$ 573,309,123

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

REVENUES		
Operating Revenues:		
Student tuition and fees, net (Note 9)	$	69,537,463
Federal grants and contracts		26,789,062
State and local grants and contracts		3,358,652
Nongovernmental grants and contracts		1,740,537
Sales and services, net (Note 9)		39,194,859
Interest earnings on loans		7,691
Other operating revenues		682,009
Total operating revenues		141,310,273
EXPENSES		
Operating Expenses:		
Salaries and benefits		203,172,760
Supplies and materials		23,579,672
Services		51,550,184
Scholarships and fellowships		14,030,475
Utilities		9,569,022
Depreciation		12,296,692
Total operating expenses		314,198,805
Operating loss		(172,888,532)
NONOPERATING REVENUES (EXPENSES)		
State appropriations		156,611,887
Noncapital grants		15,509,393
Noncapital gifts		4,234,269
Investment income (net of investment expense of $1,139,871)		2,647,956
Interest and fees on debt		(5,323,242)
Other nonoperating revenues (expenses)		(922,608)
Net nonoperating revenues		172,757,655
Loss before other revenues		(130,877)
Capital appropriations		5,716,100
Capital grants		6,415,690
Capital gifts		120,900
Additions to endowments		7,664,570
Increase in net assets		19,786,383
NET ASSETS		
Net assets - July 1, 2007		553,522,740
Net assets - June 30, 2008	$	573,309,123

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees, net	$ 69,043,669
Auxiliary enterprise charges	30,054,722
Grants and contracts	33,402,470
Sales and service of educational activities	9,137,083
Payments to employees and fringe benefits	(200,323,471)
Payments to vendors and suppliers	(86,027,555)
Payments for scholarships and fellowships	(14,029,511)
Loans issued	(2,506,770)
Collection of loans	1,756,044
Interest earned on loans	122,225
Other receipts	660,831
Net cash used by operating activities	(158,710,263)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	156,611,887
Noncapital grants	16,329,697
Noncapital gifts	4,692,905
Additions to endowments	7,749,570
Related activity agency disbursements	(430,605)
Net cash provided by noncapital financing activities	184,953,454
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
State capital appropriations	5,716,100
Capital grants	29,314,883
Capital gifts	100,000
Acquisition and construction of capital assets	(48,935,333)
Principal paid on capital debt and leases	(3,838,508)
Interest and fees paid on capital debt and leases	(5,339,633)
Other receipts	53,212
Net cash used by capital financing and related financing activities	(22,929,279)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	122,682,512
Investment income	8,141,945
Purchase of investments and related fees	(126,190,673)
Net cash provided by investing activities	4,633,784
Net increase in cash and cash equivalents	7,947,696
Cash and cash equivalents - July 1, 2007	105,686,418
Cash and cash equivalents - June 30, 2008	$ 113,634,114

		Year Ended June 30, 2008
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED USED BY OPERATING ACTIVITIES		
Operating loss	$	(172,888,532)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation expense		12,296,692
Allowances, write-offs, and amortizations		102,762
Changes in Assets and Liabilities:		
Receivables (net)		(424,141)
Inventories		50,199
Accounts payable and accrued liabilities		1,142,130
Due to primary government		229
Unearned revenue		148,613
Compensated absences		1,275,567
Deposits payable		5,975
Note principal repayments		2,087,013
Notes issued		(2,506,770)
Net cash used by operating activities	$	(158,710,263)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and cash equivalents	$	78,752,407
Restricted cash and cash equivalents		16,988,451
Noncurrent Assets:		
Restricted cash and cash equivalents		17,893,256
Total cash and cash equivalents - June 30, 2008	$	113,634,114
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in fair value of investments		(9,990,972)
Loss on disposal of capital assets		(975,820)
Assets acquired through a gift		85,000

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


AYCOCK AUDITORIUM

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 multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. Although legally separate, The Human Environmental Sciences Foundation, Incorporated, The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, Inc., 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-six member board consisting of three ex officio directors and twenty-three 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 four ex officio directors and twenty-three 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, Inc. is governed by a thirty-eight member board consisting of four ex officio directors and thirty-four 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 Foundations 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 and accordingly, is reported within a single column in the basic financial statements.

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

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

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

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

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net decrease 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.

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

F. Receivables – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, 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, are valued at cost using the last invoice cost. Merchandise for resale is valued at the lower of cost or market 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. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 40 years for general infrastructure, 50 to 100 years for buildings, and 4 to 20 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 is therefore not depreciated.

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

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, annuity and life income 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 refunds. The University amortizes bond premiums/discounts over the life of the bonds using the proportionate-to-stated interest requirements method. The deferred losses on refunds 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $107,794,268 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2008 was $36,115. The carrying amount of the University's deposits not with the State Treasurer, was $5,803,730 and the bank balance was $5,793,351. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2008, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 5,088,121

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 University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., 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.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University's formal policy is the majority of the fixed income holdings will be in U.S. fixed income portfolio of sufficient duration (4 years or more) to provide effective protection in a deflationary environment. Specific allocations to other strategies such as non-U.S. fixed income are allowed on a tactical basis.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy is the majority of the fixed income holdings will be in a diversified, high quality (AA or better average credit rating). Specific allocations to other strategies such as non-U.S. fixed income are allowed on a tactical basis.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's formal policy is that no one portfolio manager will be responsible for more than 20% of the portfolio.

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk.

External Investment Pool – The University of North Carolina at Greensboro Investment Fund, Incorporated, is an external investment pool sponsored by the University that 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 University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, and The UNCG Excellence Foundation, Inc., 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.

US Bank 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, 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, 2008, for the External Investment Pool.

External Investment Pool

	Fair Value	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities:				
Money Market Funds	$ 4,334,681	$ 4,334,681	$	$
U.S. Treasury Index Funds	10,277,308			10,277,308
Bond Mutual Fund	10,175,137		10,175,137	
Bond Foreign Mutual Fund	8,749,051			8,749,051
		$ 4,334,681	$ 10,175,137	$ 19,026,359
Other Securities:				
Corporate Securities:				
Common Stocks	13,911,884			
International	2,457,931			
Mutual Funds:				
International Equity	21,073,236			
Partnerships:				
Hedge Funds	45,401,916			
Inflation Hedging	5,564,019			
Real Estate Securities	14,299,670			
U.S. Equities	42,794,712			
Venture Capital	4,789,830			
Total External Investment Pool	$ 183,829,375			

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

	Fair Value	AAA Aaa	AA Aa
Money Market Funds	$ 4,334,681	$ 4,334,681	$
U.S. Treasury Index Funds	10,277,308	10,277,308	
Bond Mutual Fund	10,175,137		10,175,137
Bond Foreign Mutual Fund	8,749,051		8,749,051

Rating Agency: Moody's Investor 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. The External Investment Pool has investments that represent 5% or more of total investments that are not issued or explicitly guaranteed by the U.S. Government, investments in mutual funds, or other pooled investments. The investments that represent 5% or more are: Alliance Bernstein International Value Trust, Forester Partners LP, Forester Opportunities LP, and Wellington Real Assets. These investments are 8.47%, 8.08%, 5.74%, and 6.74%, respectively, of the External Investment Pool's total investments.

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

Non-Pooled Investments

		Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities	$	$	$	$
Mutual Bond Funds	3,930,670			3,930,670
Money Market Mutual Funds	372,412	372,412		
Domestic Corporate Bonds	52,653		52,653	
		$ 372,412	$ 52,653	$ 3,930,670
Other Securities				
International Mutual Funds	1,216,610			
Other Mutual Funds	4,904,649			
Domestic Stocks	1,168,717			
Foreign Stocks	104,926			
Other: Real Estate	1,555,928			
Total Non-Pooled Investments	$ 13,306,565			

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

	Fair Value	AAA Aaa	AA Aa	A
Mutual Bond Funds	$ 3,930,670	$	$ 3,930,670	$
Money Market Mutual Funds	372,412	372,412		
Domestic Corporate Bonds	52,653		26,051	26,602

Rating Agency: Moody's Investor Services, Standard & Poor's

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

	Fair Value
Investment Type	
Debt Securities:	
Money Market Funds	$ 4,334,681
Mutual Funds:	
U.S. Treasury Index Funds	10,277,308
Bond Mutual Fund	10,175,137
Bond Foreign Mutual Fund	8,749,051
Mutual Bond Funds	3,930,670
Money Market Mutual Funds	372,412
Domestic Corporate Bonds	52,653
Other Securities:	
Corporate Securities:	
Common Stocks	15,080,601
International	2,562,857
Mutual Funds:	
International Equity	22,289,846
Other Mutual Funds	4,904,649
Partnerships:	
Hedge Funds	45,401,916
Inflation Hedging	5,564,019
Real Estate Securities	14,299,670
US Equities	42,794,712
Venture Capital	4,789,830
Other: Real Estate	1,555,928
Total Investments	$ 197,135,940

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 the 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, 2008, net appreciation of $39,917,048 was available to be spent, of which $36,596,470 was restricted to specific purposes.

Note 4 - Receivables

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 880,545	$ 188,137	$ 692,408
Accounts	2,649,995		2,649,995
Intergovernmental	2,204,800		2,204,800
Pledges	1,296,093		1,296,093
Investment Earnings	470,235		470,235
Interest on Loans	126,636		126,636
Other	854,384		854,384
Total Current Receivables	$ 8,482,688	$ 188,137	$ 8,294,551
Noncurrent Receivables:			
Pledges	$ 1,505,537	$	$ 1,505,537
Other	100,000		100,000
Total Noncurrent Receivables	$ 1,605,537	$	$ 1,605,537
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 519,762	$ 6,922	$ 512,840
Institutional Student Loan Programs	348,138	2,791	345,347
Total Notes Receivable - Current	$ 867,900	$ 9,713	$ 858,187
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 6,002,343	$ 51,403	$ 5,950,940

Note 5 - Capital Assets

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

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 20,676,351	$ 190,950	$	$ 20,867,301
Art, Literature, and Artifacts	20,900,955	164,452	17,605	21,047,802
Construction in Progress	29,876,151	7,427,089	28,814,036	8,489,204
Total Capital Assets, Nondepreciable	71,453,457	7,782,491	28,831,641	50,404,307
Capital Assets, Depreciable:				
Buildings	315,391,942	58,472,286	6,374,996	367,489,232
Machinery and Equipment	33,268,805	7,091,812	2,315,245	38,045,372
General Infrastructure	69,465,426	250,000	3,536,906	66,178,520
Total Capital Assets, Depreciable	418,126,173	65,814,098	12,227,147	471,713,124
Less Accumulated Depreciation/Amortization for:				
Buildings	76,897,527	6,285,008	5,668,399	77,514,136
Machinery and Equipment	21,361,177	3,374,485	2,057,628	22,678,034
General Infrastructure	17,849,028	2,637,199	3,536,906	16,949,321
Total Accumulated Depreciation	116,107,732	12,296,692	11,262,933	117,141,491
Total Capital Assets, Depreciable, Net	302,018,441	53,517,406	964,214	354,571,633
Capital Assets, Net	$ 373,471,898	$ 61,299,897	$ 29,795,855	$ 404,975,940

Note 6 - Accounts Payable and Accrued Liabilities

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

	Amount
Accounts Payable	$ 3,750,515
Accrued Payroll	5,671,397
Contract Retainage	1,407,783
Intergovernmental Payables	508
Other	2,142,633
Total Accounts Payable and Accrued Liabilities	$ 12,972,836

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, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	$ 82,860,000	$	$ 3,515,000	$ 79,345,000	$ 3,660,000
Add/Deduct Premium/Discount	1,421,925		124,477	1,297,448	
Deduct Deferred Charge on Refunding	(352,123)		(98,954)	(253,169)	
Total Bonds Payable	83,929,802		3,540,523	80,389,279	3,660,000
Notes Payable	35,308,994		323,508	34,985,486	29,841,801
Compensated Absences	10,750,555	7,661,791	6,386,224	12,026,122	395,744
Annuity and Life Income Payable	5,395,159	630,738		6,025,897	
Total Long-Term Liabilities	$ 135,384,510	$ 8,292,529	$ 10,250,255	$ 133,426,784	$ 33,897,545

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2008	Principal Outstanding June 30, 2008	See Table Below
Revenue Bonds Payable							
Housing and Dining System							
Housing and Dining System Revenue Bonds (1997)	F	4.60%-5.10%	04/01/2016	$ 8,750,000	$ 4,070,000	$ 4,680,000	(1)
Housing and Dining System Revenue Bonds (2000)	G	5.75%	04/01/2010	6,425,000	6,045,000	380,000	(1)
Total Housing and Dining				15,175,000	10,115,000	5,060,000	
General Revenue Bonds							
General Revenue Bonds (2001)	A	4.35%-5.00%	04/01/2026	19,870,000	3,515,000	16,355,000	
General Revenue Bonds (2001)	B	3.50%-5.38%	04/01/2026	16,445,000	4,035,000	12,410,000	
Total General Revenue Bonds				36,315,000	7,550,000	28,765,000	
The University of North Carolina System Pool Revenue Bonds							
General Revenue Bonds (2002A)	(A)	4.00%-5.38%	04/01/2027	8,835,000	1,540,000	7,295,000	
General Revenue Bonds (2004C)	(B)	3.00%-5.00%	04/01/2029	18,350,000	1,440,000	16,910,000	
General Revenue Bonds (2005A)	(C)	3.00%-5.25%	04/01/2026	22,235,000	920,000	21,315,000	
Total The University of North Carolina System Pool Revenue Bonds				49,420,000	3,900,000	45,520,000	
Total Bonds Payable (principal only)				$ 100,910,000	$ 21,565,000	79,345,000	
Less: Unamortized Loss on Refunding						(253,169)	
Less: Unamortized Discount						(149,685)	
Plus: Unamortized Premium						1,447,133	
Total Bonds Payable						$ 80,389,279	

(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

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Housing and Dining Revenues	65,962,865	7,201,889	924,113	9.44%

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

	Annual Requirements							
	Revenue Bonds Payable				Notes Payable			
Fiscal Year		Principal		Interest		Principal		Interest
2009	$	3,660,000	$	3,856,184	$	29,841,801	$	775,296
2010		3,815,000		3,704,337		368,704		185,572
2011		3,985,000		3,545,247		396,971		172,270
2012		4,170,000		3,364,684		426,663		157,949
2013		4,360,000		3,176,665		457,840		142,555
2014-2018		23,135,000		12,455,281		2,813,570		440,504
2019-2023		21,525,000		6,990,413		679,937		24,531
2024-2028		13,450,000		1,989,525				
2029-2033		1,245,000		62,250				
Total Requirements	$	79,345,000	$	39,144,586	$	34,985,486	$	1,898,677

Interest on the variable rate Notes Payable is calculated at 2.35% at June 30, 2008. The interest rate on the Notes 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. Prior Year Defeasances – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2008, the outstanding balance of prior year defeased bonds was $25,815,000.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date		Original Amount of Issue		Principal Paid Through June 30, 2008		Principal Outstanding June 30, 2008
Construction of New Dormitory	RBC Centura	2.35%-9.45%	05/01/2009	$	29,500,000	$		$	29,500,000
Energy Savings Performance Contract	Banc of America	3.61%	03/01/2019		5,808,994		323,508		5,485,486
Total Notes Payable				$	35,308,994	$	323,508	$	34,985,486

The University plans to refinance the note to RBC Centura maturing on May 1, 2009, with General Revenue Bonds to be issued prior to that date.

F. Annuity and Life Income Payable - The Annuity and Life Income Payable balance consists of 142 Charitable Annuity agreements and 15 Charitable Remainder Unitrusts with a market value of $10.3 million. The $6.0 million Annuity and Life Income Payable liability is the expected present value payable to the donors based upon their age, the agreed on payment rate, and the applicable federal rate.

Note 8 - Lease Obligations

Operating Lease Obligations – The University entered into operating leases for real property and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 477,399
2010	372,528
2011	139,670
2012	69,560
Total Minimum Lease Payments	$ 1,059,157

Rental expense for all operating leases during the year was $808,870.

Note 9 - Revenues

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 81,970,640	$	$ 12,347,372	$ 85,805	$ 69,537,463
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 15,945,035	$	$ 2,279,431	$ 16,570	$ 13,649,034
Dining	11,255,701		1,539,512	11,037	9,705,152
Student Union Services	120,858				120,858
Health, Physical Education, and Recreation Services	1,088,157				1,088,157
Parking	3,764,415	146,485		24,916	3,593,014
Athletic	891,055				891,055
Other	6,950,814	5,940,308			1,010,506
Sales and Services of Education and Related Activities	9,340,115	203,032			9,137,083
Total Sales and Services	$ 49,356,150	$ 6,289,825	$ 3,818,943	$ 52,523	$ 39,194,859

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	$ 105,803,454	$ 6,237,541	$ 8,694,490	$ 7,000	$	$	$ 120,742,485
Research	7,345,367	871,974	4,795,709	188,397			13,201,447
Public Service	9,263,107	827,712	5,533,018	260,795	5,244		15,889,876
Academic Support	21,209,886	5,833,187	6,493,224	516,426	3,615		34,056,338
Student Services	10,082,078	1,230,533	3,363,443	15,106	365		14,691,525
Institutional Support	22,081,451	2,501,673	7,780,657		476		32,364,257
Operations and Maintenance of Plant	13,787,102	4,231,713	1,679,139		6,228,420		25,926,374
Student Financial Aid				13,042,751			13,042,751
Auxiliary Enterprises	13,600,315	1,845,339	13,210,504		3,330,902		31,987,060
Depreciation						12,296,692	12,296,692
Total Operating Expenses	$ 203,172,760	$ 23,579,672	$ 51,550,184	$ 14,030,475	$ 9,569,022	$ 12,296,692	$ 314,198,805

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

For the current fiscal year, the University had a total payroll of $166,610,631, of which $75,554,145 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $2,304,401 and $4,533,249, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $2,304,401, $1,794,990, and $1,434,699, respectively.

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

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

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

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

For the current fiscal year, the University had a total payroll of $166,610,631, of which $67,527,541 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $4,618,884 and $4,051,652, 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 $350,408 for the year ended June 30, 2008.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2008, were $88,150. The voluntary contributions by employees amounted to $1,018,039 for the year ended June 30, 2008.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $2,665,066 for the year ended June 30, 2008.

Note 12 - Other Postemployment Benefits

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

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

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

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $5,866,349, $4,825,805, and $4,306,669, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $744,025, $660,373, and $589,334, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

Note 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 $1,000,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $500 per occurrence deductible, except theft losses are subject to a $1,000 per occurrence deductible. 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 Sullivan 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 are $1,000,000 per claim and $5,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages are: postal bond (coverage limit $30,000); athletic staff accident (accidental death and dismemberment $1.0 million overall maximum for any one accident, maximum death specific loss $25,000, maximum specific loss $25,000; maximum medical coverage limit $75,000, $300,000 for any one individual); selective athletic staff travel (Class 1 $10,000, Class 2 $50,000 accidental death and dismemberment, $5.0 million 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 (property coverage – museum collection and temporary loan, Limits of Liability: $250.0 million limit at insured premises, $25.0 million limit at any other location, $25.0 million limit in transit on any one conveyance, $25.0 million limit for international transportation, exhibition, and location, $70.0 million for TRIA (Terrorism Risk Insurance Act), and $250.0 million limit in any one loss or disaster; Deductibles: $0 for loan items; $2,500 for owned items); musical instruments ($2.85 million cash replacement value with $1,000 deductible); robbery and safe burglary ($500,000 per event, $1,000 deductible); boiler and machinery ($25.0 million equipment breakdown limit, $5,000 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. The employer contribution rate was .16% for the current fiscal year.

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

Note 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 $12,303,252 at June 30, 2008**.**

B. Pending Litigation and Claims – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

C. Other Contingent Receivables – The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose		Amount
Pledges to The UNCG Excellence Foundation Endowment Fund	$	2,533,722
Pledges to the Human Environmental Sciences Foundation Endowment Fund		120,877
Pledges to the UNCG Endowment Fund		3,485,487

Note 15 - Changes in Financial Accounting and Reporting

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

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

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

GASB Statement No. 50, *Pension Disclosures.*

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

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

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

Note 16 - Subsequent Event

Total investments valued at $197,135,940 on June 30, 2008 were valued at $146,315,166 on December 31, 2008, reflecting a market loss of $50,820,774 or 25.8%.

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